

**SEAGULL ACADEMY FOR INDEPENDENT LIVING -
A PROGRAM OF SEAGULL INDUSTRIES
FOR THE DISABLED, INC.**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Year Ended June 30, 2007

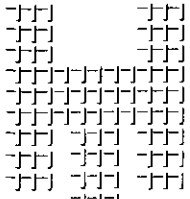
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AUDITOR GENERAL

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Holyfield & Thomas, LLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Seagull Academy for Independent Living - A Program
of Seagull Industries for the Disabled, Inc.
Riviera Beach, Florida

We have audited the accompanying financial statements of the governmental activities and the governmental fund of Seagull Academy for Independent Living (SAIL)- A Program of Seagull Industries for the Disabled, Inc. (a not-for-profit corporation) as of and for the year ended June 30, 2007, which collectively comprise SAIL's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Seagull Academy for Independent Living's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Chapter 10.550 Local Governmental Entity Audits*, and *Chapter 10.850 Audits of Charter Schools and Similar Entities of the Rules of the Auditor General State of Florida*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of Seagull Academy for Independent Living as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 6 to the financial statements, the Organization is dependent upon student enrollment and associated State funding, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2007, on our consideration of Seagull Academy for Independent Living's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the statement of revenues, expenditures and changes in fund balance-budget vs. actual-general fund are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Holyfield & Thomas, LLC

West Palm Beach, Florida
August 17, 2007

For the Year Ended June 30, 2007

The Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc., (SAIL) is a public charter school operated in Palm Beach County, FL, under the sponsorship of the School District of Palm Beach County.

Within this section of SAIL's annual financial report, management provides narrative discussion and analysis of the financial activities of SAIL for the fiscal year ended June 30, 2007. SAIL's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The Management's Discussion and Analysis introduces SAIL's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. SAIL also includes in this report additional information to supplement the basic financial statements.

Financial Highlights

SAIL's assets exceed its liabilities by \$18,022 (net assets) for the fiscal year reported. Total net assets are comprised of the \$77,042 investment in capital assets, net of related accumulated depreciation of \$32,486. SAIL decreased its rent expense and associated costs of space in the building at 4700 Broadway, originally purchased to be used to house the charter school but no longer deemed sufficient for those needs. While the School did not receive transportation funding in the amount anticipated based upon the school district's initial estimate, it did receive a concession from its sponsor to offset this lost support. This concession resulted in approximately \$28,600 more contribution support and a corresponding reduction in payable to Seagull Industries for the Disabled. Seagull also reduced staff salaries during the year. As discussed in Note 6, the School's ability to continue as a going concern is dependent upon future enrollment and associated State funding.

Financial Analysis of School

Government funds are reported in the fund financial statements and encompass essentially the same functions reported as government activities in the government wide financial statements. Substantially all of SAIL's revenue is provided by the State of Florida from the Florida Education Finance Program (FEFP). The revenue is based on full-time students enrolled (FTE) each year as determined by counts held in October and February of the fiscal year and paid to the Academy on a monthly basis. SAIL also receives capital outlay funds for use in acquiring, leasing, and/or maintaining school facilities.

Government-wide Financial Statements

SAIL's annual report includes two government wide financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector with full accrual accounting.

The first of these government-wide statements is the *Statement of Net Assets*. This is the company-wide statement of position presenting information that includes all the of SAIL's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator whether the financial position of SAIL as a whole is improving or deteriorating. Evaluation of the overall health of SAIL would extend to other nonfinancial factors such as student

For the Year Ended June 30, 2007

education, progress and improvements.

Government-wide Financial Statements, continued

The second government-wide statement is the *Statement of Activities*, which reports how SAIL's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of SAIL's distinct activities or functions on revenues provided by the school district and other private grants.

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Both government-wide financial statements distinguish governmental activities of SAIL that are principally supported by intergovernmental revenues, and other grants.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. SAIL uses funds to ensure and demonstrate compliance with finance-related laws and regulation. Within the basic financial statements, fund financial statements focus on SAIL's most significant funds.

Governmental Funds

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of SAIL's government funds. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Proprietary Funds

Proprietary funds are reported in the fund financial statements and generally report services for which SAIL charges a fee. As of June 30, 2007, SAIL did not have any proprietary funds.

Financial Analysis of the Major Funds

General Fund

The general fund is the operating fund. It recognized \$477,826 in total revenues and \$448,727 in total expenditures, which resulted in an excess of revenues over expenditures of \$29,099.

As of June 30, 2007 and 2006

**Condensed Statement of Net Assets
Governmental Activities**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Current and other assets	26,489	\$ 16,684	\$ 85,413
Capital assets	44,556	58,197	68,082
Total assets	<u>\$ 71,045</u>	<u>\$ 74,881</u>	<u>\$ 153,495</u>
 LIABILITIES			
Current liabilities	\$ 53,023	<u>\$ 72,317</u>	<u>\$ 10,342</u>
 NET ASSETS			
Invested in capital assets (net of related debt)	44,556	58,197	68,082
Unrestricted	(26,534)	(55,633)	75,071
Total net assets	<u>18,022</u>	<u>2,564</u>	<u>143,153</u>
Total liabilities and net assets	<u>\$ 71,045</u>	<u>\$ 74,881</u>	<u>\$ 153,495</u>

See accompanying notes to financial statements

SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 157,225	\$ -	\$ -	\$ -	\$ (157,225)	\$ -	\$ (157,225)
Pupil personnel services	51,569				(51,569)		(51,569)
Instructional staff training services	572				(572)		(572)
Board	72				(72)		(72)
General administration	51,498				(51,498)		(51,498)
School administration	105,065				(105,065)		(105,065)
Facilities, acquisition and construction	35,460		32,935		(2,525)		(2,525)
Fiscal services	8,070				(8,070)		(8,070)
Food services	3,153				(3,153)		(3,153)
Pupil transportation services	42,697				(42,697)		(42,697)
Operation of plant	5,954				(5,954)		(5,954)
Total governmental activities	\$ 461,335	\$ -	\$ -	\$ -	(428,400)		(428,400)
Total business-type activities	\$ -	\$ -	\$ -	\$ -			
General revenues:							
FEFP fees					359,220		359,220
IDEA revenues					36,729		36,729
Title I revenues					10,864		10,864
Other revenues					38,078		38,078
Loss on disposal of fixed assets					(1,033)		(1,033)
Total general revenues					443,858		443,858
Change in net assets					15,458		15,458
Net assets, beginning of year					2,564		2,564
Net assets, end of year					\$ 18,022	\$ -	\$ 18,022

See accompanying notes to financial statements.

SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

BALANCE SHEET-
GOVERNMENTAL FUND

As of June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 14,401
Receivables	9,688
Prepaid rent	<u>2,400</u>
Total assets	<u>\$ 26,489</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 533
Due to related party	<u>52,490</u>
Total liabilities	<u>53,023</u>
Fund balance:	
Undesignated	<u>(26,534)</u>
Total liabilities and fund balance	<u>\$ 26,489</u>

See accompanying notes to financial statements.

SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCE-GOVERNMENTAL FUND

For the Year Ended June 30, 2007

	General Fund
REVENUES:	
FEFP fees	\$ 359,220
IDEA revenues	36,729
Capital outlay grant	32,935
Title I revenues	10,864
Donations	8,648
Other revenues	29,430
Total revenues	<u>477,826</u>
EXPENDITURES:	
Instruction	152,605
Pupil personnel services	51,569
Instructional staff training services	572
Board	72
General administration	51,498
School administration	102,988
Facilities, acquisition and construction	32,399
Fiscal services	8,070
Food services	2,481
Pupil transportation services	42,697
Operation of plant	3,776
Total expenditures	<u>448,727</u>
Net change in fund balance	29,099
Fund balance, beginning of fiscal year	<u>(55,633)</u>
Fund balance, end of fiscal year	<u>\$ (26,534)</u>

See accompanying notes to financial statements.

SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

RECONCILIATION OF THE BALANCE
SHEET-GOVERNMENTAL FUND TO THE
STATEMENT OF NET ASSETS

As of June 30, 2007

Total governmental fund balance \$ (26,534)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost and accumulated depreciation are reported in the government-wide statement of net assets.

Cost of assets 77,042

Accumulated depreciation (32,486)

Total net assets \$ 18,022

See accompanying notes to financial statements.

SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

RECONCILIATION OF THE STATEMENT
OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE-
GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Net change in fund balances - total governmental fund	\$ 29,099
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense and as a loss when disposed:	
Current year depreciation	(12,608)
Loss on disposal of equipment	<u>(1,033)</u>
Change in net assets	<u>\$ 15,458</u>

See accompanying notes to financial statements.

For the Year Ended June 30, 2007

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Seagull Academy for Independent Living (SAIL) is a charter school program of Seagull Industries for the Disabled, Inc. ("Organization"). SAIL was originally incorporated by the Organization as a result of the charter school agreement with the School District of Palm Beach County, Florida ("District"). The separate incorporation was discovered to have not been necessary as SAIL has always been operated as a program of the Organization, therefore, the two Boards were merged on December 21, 2004 and SAIL was formally dissolved as a non-profit corporation March 25, 2006. The charter school contract, which was renewed on August 16, 2005, expires July, 2010. SAIL reports its financial activity as a component of the Palm Beach County, Florida School District as required by the Florida Auditor General. SAIL issues its own financial statements under *Government Accounting Standards Board (GASB)* reporting requirements. These financial statements report the results of operations of SAIL and do not reflect the results of operations of the Organization.

SAIL provides school programs for at-risk and adjudicated youth and young adults aged 14-21, who are developmentally challenged into post-school adult living with a high school diploma.

Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for SAIL as a whole. The statement of activities report the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include positions of a fund or summarize more than one fund to capture the expense and program revenues association with a district functional activity. Program revenues include: 1. charges for services which report fees and other charges, 2. operating grants and contributions which finance annual operating activities including restricted investment income, and 3. capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses.

Governmental Fund Financial Statements

Governmental fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds.

All the activities of SAIL are classified as governmental type activities. There are no business type activities.

For the Year Ended June 30, 2007

1. Nature of Activities and Summary of Significant Accounting Policies, continued

Basis of Accounting

The government-wide financial statements of SAIL are prepared in accordance with generally accepted accounting principles (GAAP). GASB is responsible for establishing GAAP for school districts through its statements and interpretations. The activities in the financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Net assets are maintained in accordance with the principles of fund accounting using the accrual basis.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. SAIL considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, SAIL considers cash and cash equivalents to include cash on hand and demand deposits. As per the agreement with the District, SAIL keeps a separate bank account for its funding, and uses a regional commercial bank which management believes to be in sound financial condition.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets ranging from five to ten years. Depreciation is allocated to program and supporting services based on the use of the property and equipment. Although SAIL believes that the District would not want these capitalized assets, the possibility exists that the District could acquire these assets when the contract expires.

Additions, improvements, and expenditures for repairs and maintenance that are over \$500 and significantly add to the productivity or extend the economic life of assets are capitalized. Any immaterial amounts or amounts incurred as recurring expenditures for repairs and maintenance are expensed. Disposal of equipment that was damaged, obsolete and/or in disrepair resulted in a loss of approximately \$1,033 as reported in the statement of activities.

Contributed Services

A substantial number of volunteers have donated significant contributions of their time to SAIL's program services. SAIL does not recognize any support, revenue or expense from services contributed by individual volunteers since no objective basis is available to measure the value of such services.

For the Year Ended June 30, 2007

1. Nature of Activities and Summary of Significant Accounting Policies, continued

Use of Estimates

Management of SAIL has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Income Taxes

SAIL is a program of a non-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

2. Revenue from Government Agencies

SAIL receives a substantial amount of its revenue from government agencies. A significant reduction in the level of this revenue may have a substantial effect on SAIL's programs, activities, and its ability to continue operations. The accounts receivable is due from the government agency.

3. Property and Equipment

Following is a detail of property and equipment as of June 30, 2007:

Leasehold improvements	\$ 36,739
Furniture and equipment	40,303
	<u>77,042</u>
Less accumulated depreciation	32,486
Total property and equipment	<u>\$ 44,556</u>

Depreciation expense for the year ended June 30, 2007 was \$12,608.

4. Lease

SAIL leases its primary school facility pursuant to a lease that had an original expiration of May 31, 2007, has two one-year renewal options and may be cancelled by either party with 60 days written notice. The monthly lease payments are \$2,800. Rent expense for the year ended June 30, 2007 was \$30,400 and is included in purchased services under facilities, acquisition and construction in the statement of activities. Future minimum lease payments under this lease agreement are \$5,600 for fiscal year end June 30, 2008.

For the Year Ended June 30, 2007

5. Pension Plan

The Organization has established a non-contributory, defined contribution plan for its employees. Employees are eligible upon reaching 21 years of age and one year of qualifying service. The year of service requirement may be waived for employees with prior participation in a comparable plan.

Contributions are set annually at the discretion of the Board of Directors for eligible employees' salary. For the plan year ended June 30, 2007, no contribution was made.

6. Contingencies and Going Concern

SAIL receives funding from the District based upon the number of full time equivalent (FTE) students who attend the charter school. The data is compiled by SAIL and submitted to the District. The disbursements of funds received under the contract generally requires compliance with terms and conditions specified by the contract and is subject to audit by the District, the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of SAIL. The management of SAIL believes that the amounts that would be remitted back to the District due to errors in their FTE count would not be material to the financial position of SAIL.

If the total number of students enrolled and the level of their disability is less than the 2006-2007 levels, the amount of FEFP funding will be less than that required to fund the school for the fiscal year 2007-2008. In that event, additional outside funding sources must be found or the Sponsor will be required to make up the difference as it did during this recent year for lost transportation funding.

The State of Florida legislature is scheduled to meet in October 2007 to discuss what cuts will be made to balance the State budget. Should those cuts reduce the level of funding available to the School, the Board of Directors, while being committed to the well being and future of the students, will be forced to consider closing the School, however reluctantly. Any decision regarding closure will be made by the SAIL's full board of directors after consideration of all relevant funding information following the October count and the end of the legislative special session.

7. Related Party Transactions

SAIL acquires certain services including salaries and related expenses, insurance, repairs and management services through its parent organization, Seagull Industries for the Disabled, Inc. (Seagull). Seagull will make payments for these various services, and bill SAIL for a like amount, plus a monthly management fee. For the year ended June 30, 2007, SAIL was billed approximately \$385,000 and made payments of approximately \$376,000. In addition Seagull granted SAIL a concession of \$28,587 against amounts due from the prior year because of a shortage in transportation fees provided via FEFP funding. The concession is reflected as a contribution for SAIL in the Statement of Activities, and is eliminated in the consolidated statements of SAIL and Seagull. SAIL owed Seagull \$49,116 as of June 30, 2007.

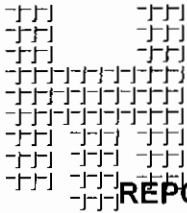
SEAGULL ACADEMY FOR INDEPENDENT
LIVING - A PROGRAM OF SEAGULL
INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-
BUDGET VS ACTUAL-
GENERAL FUND

For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
FEFP fees	\$ 357,840	\$ 357,840	\$ 359,220	\$ 1,380
IDEA revenues	35,000	35,000	36,729	1,729
Capital outlay grant	31,330	31,330	32,935	1,605
Title I revenues	11,098	11,098	10,864	(234)
Donations	-	-	8,648	8,648
Other revenues	50,686	52,529	29,430	(23,099)
Total revenues	485,954	487,797	477,826	(9,971)
EXPENDITURES:				
Instruction	163,152	175,630	152,605	23,025
Pupil personnel services	60,147	55,656	51,569	4,087
Instructional staff training services	1,210	1,210	572	638
Board	7,000	5,000	72	4,928
General administration	51,500	51,500	51,498	2
School administration	92,531	93,752	102,988	(9,236)
Facilities, acquisition and construction	36,000	36,000	32,399	3,601
Fiscal service	7,500	8,300	8,070	230
Food service	800	675	2,481	(1,806)
Pupil transportation services	52,074	50,074	42,697	7,377
Operation of plant	14,040	10,000	3,776	6,224
Total expenditures	485,954	487,797	448,727	39,070
Net change in fund balance	\$ -	\$ -	29,099	\$ 29,099
Fund balance, beginning of fiscal year			(55,633)	
Fund balance, end of fiscal year			\$ (26,534)	

See independent auditor's report.



Holyfield & Thomas, LLC

Certified Public Accountants & Advisors

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REPORT ON (INTERNAL CONTROL OVER FINANCIAL REPORTING) AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors and Management
Seagull Academy for Independent Living - A Program
of Seagull Industries for the Disabled, Inc.
Riviera Beach, Florida

We have audited the financial statements of the governmental activities and each major fund of Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc. as of and for the year ended June 30, 2007, which collectively comprise the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s basic financial statements and have issued our report thereon dated August 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

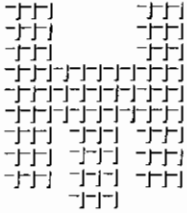
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Seagull Academy for Independent Living - A Program of Seagull Industries for the Disabled, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal and state awarding agencies, School Board of Palm Beach County and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Holyfield & Thomas, LLC

West Palm Beach, Florida
August 17, 2007



Holyfield & Thomas, LLC

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MANAGEMENT LETTER

To the Board of Directors
Seagull Academy for Independent Living - A Program
of Seagull Industries for the Disabled, Inc.
Riviera Beach, Florida

In planning and performing our audit of the financial statements of Seagull Academy for Independent Living (SAIL) - A Program of Seagull Industries for the Disabled, Inc. for the year ended June 30, 2007, we considered SAIL's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. We previously reported on SAIL's internal control in our report dated August 17, 2007. This letter does not affect our report, dated August 17, 2007, on the financial statements of SAIL.

This management letter has been prepared pursuant to Florida Statutes, Section 218.39 (4) and the Rules of the Florida Auditor General, AG Sections 10.806 (2)(d) and 10.856 (2)(d) and notes the following:

1. SAIL had the following management letter items in the prior year audit.
 - a. We recommended that the disbursement authorization be done by someone other than the disbursement initiator.
 - This recommendation has been adopted.
 - b. We recommended that the invoices be cancelled with a stamp.
 - The Organization effectively cancels invoices with initials of the posting bookkeeper and stapled copy of check stub.
 - c. We recommended that the account distribution and authorization be reflected on the face of the document packet.
 - The Organization now indicates authorization and is currently implementing the recommendation with respect to account distribution.
2. SAIL had the following condition according to Florida Statute 218.503(1):
 - a. Condition (e) – As of the prior year end June 30, 2006, SAIL had an unreserved or total fund balance or retained earnings deficit of (\$55,633). This condition occurred in 2006 because of expenditures for capital assets of \$96,594 which were not reported in the governmental funds Balance Sheet. During fiscal year end June 30, 2007, SAIL had a positive change in net assets of \$15,458, and a positive change in fund balance of \$29,099. Accordingly, SAIL has net assets of \$18,022, and fund balance (deficit) of (\$26,534). See page four and eight of the audit report.
3. There are no recommendations pursuant to Florida Statute Section 218.39(5).
4. Current year recommendations:
 - a. Signed checks should not be returned to the preparer before mailing.
 - b. We recommend that account distribution be reflected on the face of the document packet.

5. Findings and/or recommendations are provided above, as applicable.
6. The official name of the school is Seagull Academy for Independent Living.

Management's response: We agree with the above recommendations.

This report is intended for the information of the Board of Directors, management, federal and state awarding agencies, School Board of Palm Beach County and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

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