

House District 40
Senate District 19

THE TWENTY-SEVENTH LEGISLATURE
APPLICATION FOR GRANTS & SUBSIDIES
CHAPTER 42F, HAWAII REVISED STATUTES

Log No:

For Legislature's Use Only

Type of Grant or Subsidy Request:

- GRANT REQUEST – OPERATING GRANT REQUEST – CAPITAL SUBSIDY REQUEST

"Grant" means an award of state funds by the legislature, by an appropriation to a specified recipient, to support the activities of the recipient and permit the community to benefit from those activities.

"Subsidy" means an award of state funds by the legislature, by an appropriation to a recipient specified in the appropriation, to reduce the costs incurred by the organization or individual in providing a service available to some or all members of the public.

"Recipient" means any organization or person receiving a grant or subsidy.

STATE DEPARTMENT OR AGENCY RELATED TO THIS REQUEST (LEAVE BLANK IF UNKNOWN):

DEPARTMENT OF EDUCATION, DEPARTMENT OF HUMAN SERVICES

STATE PROGRAM I.D. NO. (LEAVE BLANK IF UNKNOWN): _____

1. APPLICANT INFORMATION:

Legal Name of Requesting Organization or Individual:
Seagull Schools, Inc.

Dba: Seagull Schools, Inc.

Street Address: 1300 Kailua Road, Kailua, HI 96734

Mailing Address: 1300 Kailua Road, Kailua, HI 96734

2. CONTACT PERSON FOR MATTERS INVOLVING THIS APPLICATION:

Name CHARLES LARSON

Title Executive Director

Phone # (808) 261-8534

Fax # (808) 261-7052

e-mail seagull@aloha.com

3. TYPE OF BUSINESS ENTITY:

- NON PROFIT CORPORATION
 FOR PROFIT CORPORATION
 LIMITED LIABILITY COMPANY
 SOLE PROPRIETORSHIP/INDIVIDUAL

6. DESCRIPTIVE TITLE OF APPLICANT'S REQUEST:

CONSTRUCT A CHILD CARE CENTER FOR 90 CHILDREN ON LAND LEASED FROM THE STATE THAT IS ADJACENT TO KAPOLEI ELEMENTARY SCHOOL. THE PROJECT IS COORDINATED AND PARTLY FUNDED BY PRIVATE NONPROFIT PRESCHOOL, SEAGULL SCHOOLS.

4. FEDERAL TAX ID #: _____

5. STATE TAX ID #: _____

7. AMOUNT OF STATE FUNDS REQUESTED:

FISCAL YEAR 2014: \$ 1,200,000

8. STATUS OF SERVICE DESCRIBED IN THIS REQUEST:

- NEW SERVICE (PRESENTLY DOES NOT EXIST)
 EXISTING SERVICE (PRESENTLY IN OPERATION)

SPECIFY THE AMOUNT BY SOURCES OF FUNDS AVAILABLE AT THE TIME OF THIS REQUEST:

STATE \$ _____

FEDERAL \$ _____

COUNTY \$ _____

PRIVATE/OTHER \$ 135,000

TYPE NAME & TITLE OF AUTHORIZED REPRESENTATIVE:

CHARLES LARSON, EXECUTIVE DIRECTOR
NAME & TITLE

1-18-2013
DATE SIGNED

Application for Grants and Subsidies

If any item is not applicable to the request, the applicant should enter "not applicable".

I. Background and Summary

This section shall clearly and concisely summarize and highlight the contents of the request in such a way as to provide the State Legislature with a broad understanding of the request. Include the following:

1. Seagull Schools is a private, non-profit 501 (c) (3) corporation, that for the past 41 years has been serving Hawai'i's communities by developing and operating childcare and early education facilities. It has become one of the state's largest childcare providers, serving approximately 1,000 children from mixed socio-economic backgrounds. The schools' seven (7) centers are located in Kailua, Ewa Beach, Kapolei (2), Ko Olina, and downtown Honolulu on the island of O'ahu, and the Mauna Lani Resort on the island of Hawai'i. From its Kapolei school, Seagull also operates a food service program from a central kitchen that prepares over 2,400 meals a day and an adult day service program for 50 older adults.

All of the Seagull Schools childcare and early education centers are currently accredited by the National Association for the Education of Young Children (NAEYC) except for its newest center at Ko Olina that is currently in the accreditation process for the first time.

The schools' child development programs are well known for their exceptional ability to provide high quality care and early education at affordable rates that meet the needs of working parents.

Seagull Schools, is proud that their services are provided to a broad spectrum of socio-economic levels within the community. The childcare centers currently have 340 children whose attendance is supported by funding from the State of Hawai'i or Kamehameha Schools. Besides having fees that are among the lowest in the state, Seagull Schools also provides approximately \$65,000 in financial aid annually to children from a separate tuition assistance program that is partially funded by local charitable foundations.

Seagull Schools also provides quality employment and training. During the past fifteen years of operation, Seagull Schools has trained and hired more than 30 persons from Welfare to Work programs. These jobs, as with all the programs of Seagull Schools, are self-sustaining and require no type of on-going government funding or support.

During this past year, Seagull Schools was one of only eighteen (out of 6,000 applicants) across the country to be honored in Washington D.C., by First Lady Michelle Obama's Let's Move! Program for outstanding efforts to prevent obesity and help children get off to a healthy start. The award was the result of several of the schools' attributes that included; energy efficient photovoltaic system, healthy meals that include brown rice and whole wheat bread, once a week vegetarian meals, no t.v., and no air conditioning. The schools all have cool naturally ventilated classrooms and lots of green open spaces for children to explore and run at full speed.

Seagull Schools has also won a "Best Place to Work" and a "Psychological Healthy Workplace" award in 2011.

The mission of Seagull Schools is to provide early education programs of the highest value, which are responsive to Hawai'i's diverse community.

Seagull Schools has been opportunistic in developing new childcare centers that are responsive to Hawai'i's growth. In the past twenty years the schools have obtained more than \$15 million in grants, loans and gifts to develop well designed, beautiful, state of the art childcare facilities in Kapolei, Ko Olina, Ewa Beach and Kailua. The schools are beautifully landscaped, naturally ventilated and energy efficient. More specifically, Seagull Schools leveraged \$2,300,000 of grants from the Hawai'i State Legislature to construct facilities valued at \$15,000,000 that support the public need for early education and childcare.

Since 2006, Seagull Schools has contracted with the Department of Human Services (DHS) to operate a Pre Plus facility at Kapolei Elementary School for 30 children. It is one of seventeen Pre Plus facilities constructed on Department of Education (DOE) campuses that were developed to provide early education opportunities for 3 and 4 year old children from low to moderate income families.

The Kapolei Pre Plus program operated by Seagull Schools differs from all the other Pre Plus programs because it has a 50% larger capacity, longer operating hours to support working families, is not operated by Head Start and is funded by fees charged to parents. It also differs in appearance as evidenced by the relatively large and beautifully landscaped playground.

2. The goals and objectives related to the request;

Seagull Schools is requesting a CIP Grant-In-Aid of \$1,200,000 to partially fund construction of three new early education buildings for 90 children on a 2/3 acre parcel of leased state land adjacent to the Kapolei Elementary School campus. The one-time grant from the State of Hawai'i will support a project that will complement and expand the state's Pre-Plus program. It will provide additional

much-needed childcare slots at a per child cost that is favorable to what is spent by the state for similar facilities. The location of this project is in an area demonstrated to be of greatest need for this service both now and into the future.

The design of the new buildings will be very similar to a childcare center that was constructed in 2009 at the Kailua Seagull School. It will also be energy efficient with a photovoltaic system to generate electricity and naturally cooled classrooms. The Kailua project was also partially funded by a chapter 42F CIP grant.

The projected total cost of this project is \$2,600,000. The balance of needed funding (\$1,300,000) will be obtained from non-state sources. We are confident in our ability to financially complete this project due to our previous successes.

This project is similar to four other childcare center projects that Seagull Schools has completed in recent years in that the construction was funded by a mix of public and private sources. For those projects Seagull obtained from the public sector a total of \$2.3 million from CIP Grants-In-Aid from the legislature and \$960,000 from CDBG grants. The USDA Rural Development also directly loaned Seagull Schools \$3.3 million. Grants from charitable foundations, businesses and individuals totaled approximately \$4.2 million. All of those projects have been recognized for their healthy and energy efficient designs.

The result of this project will be services and economic benefits to the local communities far beyond the State's grant contribution. It will also demonstrate a strategy for developing early education facilities on or adjacent to public school campuses that will support the state's educational objectives.

3. The public purpose and need to be served;

For the past twenty years, Seagull Schools has provided significant services to the West O'ahu Community. Its nationally accredited preschools at Kapolei and Ewa Beach operate at full capacity with a combined enrollment of 440 children aged 2 to 5 years old. The Kapolei Pre Plus program of Seagull Schools also operates at full capacity with 30 children.

This project will expand Seagull's ability to provide the basic education needs of a growing Kapolei population. It will allow more students, regardless of socio-economic backgrounds, to be better prepared for the increasing educational demands of a technology-oriented society.

The Good Beginnings Alliance (GBA) recently confirmed the need for greater attention to early education in Hawai'i with the following statements.

- Early intervention for developmentally delayed children can eliminate the need for special education.

- Every \$1 spent on early childhood services in Hawai'i produces \$4.2 return on investment.
- Hawai'i currently dedicates less than 3% of its resources to young children and their families.
- 85% of brain development happens before age 5.
- Less than 10% of Kindergarten classes have at least 75% of children entering with the necessary pre-literacy and pre-math skills.
- 40% of Hawai'i's public school kindergarten students did not attend preschool (2009).

Because of the continuing growth of housing and economic development in the Kapolei area, the services provided by Seagull Schools are in great demand. This is evidenced by the current wait list for enrollment at both of the Seagull Schools preschools located in Kapolei.

An event is approaching rapidly that will significantly increase the need for early education facilities in Hawai'i. Beginning 2014 the kindergarten eligibility entrance date will be moved back from December 31st to August 1st. That means a child will have to be five years old before August 1st to be eligible for kindergarten. The result is that approximately 5,500 children will not go to kindergarten in that year and will need a program of kindergarten preparedness. On January 9, 2013, Governor Abercrombie announced his plans for a statewide system of early learning at Seagull Schools' Early Education Center. It included a new public/private system of delivery, new funding, and a plan to increase infrastructure for early education. **This project will be a model for public/private infrastructure development and will be ready for services to meet the August 1, 2014 date.**

At that time, Seagull Schools will vacate the Pre Plus classroom that it has occupied at Kapolei Elementary School for the past six years and turn it over to the elementary school for its use to help mitigate their need for additional space. Kapolei Elementary School currently operates on a four track schedule to maximize the use of its current facilities and this additional classroom will be significant in helping them to satisfy their needs for more classrooms.

This project will also support the readiness of children to succeed when they enter kindergarten. Currently only half of the 180 kindergarten children at Kapolei Elementary have attended preschool and this project will provide the resource for the other half to attend.

Construction of the new facility at Kapolei will not only provide enriching and educationally stimulating programs to an increasing number of young, it will also create additional job training and employment.

4. Describe the target population to be served:

This project located at the Kapolei Elementary School campus includes children aged two to five years. It will also create additional job training and employment for twelve people from West O'ahu.

5. Describe the geographic coverage.

Seagull Schools at this time is developing a plan that will significantly expand its services to Kapolei residents.

Construction of the three new buildings will provide additional educational opportunities for 90 children and provide childcare support for their working parents.

II. Service Summary and Outcomes

The Service Summary shall include a detailed discussion of the applicant's approach to the request. The applicant shall clearly and concisely specify the results, outcomes, and measures of effectiveness from this request. The applicant shall:

1. Describe the scope of work, tasks and responsibilities;

The project will result in construction of a new early education and childcare center on land leased from the state for 60 years that is adjacent to Kapolei Elementary School. The center will consist of three buildings that will include; classrooms for up to 90 children aged 2 – 5 years, a 1,800 s.f. multipurpose covered lanai, an administrative office and teacher work area, a room dedicated to older adult volunteers, a developmentally appropriate playground, a 23 car parking lot and a photovoltaic electric generating system.

This project will utilize completed architectural plans developed from design elements of Seagull's four prior childcare center construction projects.

2. Provide a projected annual timeline for accomplishing the results or outcomes of the service;

Prior to the beginning of construction a contractor will have been selected and building permits will have been obtained. It is estimated that project funding will be obtained by September 1, 2013 and construction will start at that time.

September 1, 2013	Construction will start
March 1, 2014	Construction will be completed
April 1, 2014	Utilities will be connected, playground and landscaping will be completed
June 1, 2014	Furniture and equipment will arrive Certificate of Occupancy will be issued
July 15, 2014	School will be open and licensed for childcare by the Department of Human Services
August 1, 2014	The school will begin operation

3. Describe its quality assurance and evaluation plans for the request. Specify how the applicant plans to monitor, evaluate, and improve their results; and

Seagull School's Quality Improvement/ Assurance Committee is comprised of members of the Board of Directors. Measures of effectiveness to be evaluated by the Quality Improvement/Assurance Committee include:

- Full enrollment of 90 children at the new facility
- Water and energy efficiency practices will reduce waste and increase conservation
- The quality of construction will meet inspection standards
- Design of facility will support learning activities provided to the children
- Provision for professional training and development of the new teaching staff will be completed
- Standards of NAEYC accreditation will be met to assure program quality

4. List the measure(s) of effectiveness that will be reported to the State agency through which grant funds are appropriated (the expending agency). The measure(s) will provide a standard and objective way for the State to assess the program's achievement or accomplishment. Please note that if the level of appropriation differs from the amount included in this application that the measure(s) of effectiveness will need to be updated and transmitted to the expending agency.

This project will be similar to four other previous projects of Seagull Schools that

were partially funded with State grants and monitored by the Office of Community Services (OCS) of the Department of Labor and Industrial Relations (DLIR). In all of the projects the OCS staff assigned a person to monitor the construction weekly and process contractor payments on a timely basis. Other over-sight will be provided by designated members of the Seagull Schools Board of Directors who will make weekly construction site inspections and participate in weekly owner, architect, and contractor meetings.

III. Financial

Budget

1. The applicant shall submit a budget utilizing the enclosed budget forms as applicable, to detail the cost of the request.

See budget forms

2. The applicant shall provide its anticipated quarterly funding requests for the fiscal year 2014.

Quarter 1 July 13–Sept. 13	Quarter 2 Oct 13 – Dec 13	Quarter 3 Jan 14 – March 14	Quarter 4 April 14 – June 14	Total Grant
\$200,000	\$300,000	\$300,000	\$400,000	\$1,200,000

3. The applicant shall provide a listing of all other sources of funding that they are seeking for fiscal year 2014.

Other sources of funding will be provided by Seagull Schools through a capital campaign. The following is a list of potential resources that are not yet confirmed.

Possible Revenue Sources

State of Hawai'i	\$1,200,000.00
Seagull Schools	\$50,000.00
Weinberg Foundation	\$600,000.00
Charitable Foundations	\$510,000.00
Businesses and Individuals	\$50,000.00
Total	\$2,410,000

Charitable Foundations

James and Abigail Campbell Family	\$50,000.00
Atherton Family	\$100,000.00
Samuel and Mary Castle Foundation	\$85,000.00
McInerny Foundation	\$100,000.00
HEI	\$25,000.00
Wilcox Foundation	\$50,000.00
Bank of Hawai'i Charitable Foundation	\$50,000.00
First Hawaiian Bank Charitable Foundation	\$50,000.00
Total	\$510,000.00

4. The applicant shall provide a listing of all state and federal tax credits it has been granted within the prior three years. Additionally, the applicant shall provide a listing of all state and federal tax credits they have applied for or anticipate applying for pertaining to any capital project, if applicable.

There are no tax credits.

IV. Experience and Capability

A. Necessary Skills and Experience

The applicant shall demonstrate that it has the necessary skills, abilities, knowledge of, and experience relating to the request. State your experience and appropriateness for providing the service proposed in this application. The applicant shall also provide a listing of verifiable experience of related projects or contracts for the most recent three years that are pertinent to the request.

All of the Seagull Schools are nationally accredited by the National Association for the Education of Young Children (NAEYC), and continuously licensed by the State of Hawai'i Department of Human Services. As such, Seagull Schools adheres to the rigorous quality standards set by NAEYC and the State of Hawai'i Department of Human Services. Additionally, Seagull Schools was recognized by the Hawai'i Association for the Education of Young Children (HAEYC) "for becoming the first Early Education multi-site program in Hawai'i to have all its centers accredited by the National Academy of Early Childhood Programs." The significance of this recognition for providing high quality programs is enhanced when one considers the difficulty of the accreditation process in relationship to the size of the programs being accredited. Three of Seagull Schools' programs are the largest in the state outside of military facilities.

Seagull Schools has successfully fulfilled its mission of responding to the early education needs of Hawai'i's diverse community by providing affordable early education programs of the highest value. In its forty one years, Seagull Schools' history has included, but is not limited to, the following events:

- 1970 First Seagull School preschool began in Kailua for 38 children
- 1973 Began food service that today prepares more than 2,400 meals per day
- 1973 Seagull Schools begins eighteen (18) years of a P.O.S. child care contract with the State of Hawai'i
- 1974 Seagull Schools opens preschool in Waimanalo with P.O.S. funding (closed in 1992)
- 1975 Seagull Schools opens an Elementary school with grades K – 6 in Waimanalo (closed in 1996)
- 1980 Started the Child Care Switchboard as a community based child care referral program
- 1981 Created the Play Plus Program
- 1983 Seagull Schools began Hawai'i's first center-based infant/toddler day care
- 1986 Began contracting with the City of Honolulu to operate the State's largest child care center with licensed capacity for 264 children. It is still operated by Seagull Schools.
- 1988 Manoa child care center opens (closed in 1992)
- 1989 Ecumenical Housing Corporation contracts to operate child care center for Kalihi homeless children. (Converted to Head Start in 1992)
- 1990 Mauna Lani Resort contracts with Seagull Schools to operate their employee child care center on the Big Island. (Continues to present)
- 1995 Completed (Phase I) \$3.2 million Kapolei preschool facility
- 1997 Completed (Phase II) \$800,000 Kapolei adult care facility
- 2001 Co-sponsored international intergenerational conference
- 2001 Began Kapolei's first private elementary school
- 2001 Received KOA award for excellence in education
- 2002 Completed Kapolei school (Phase III) \$1.2 million construction to add space for additional 25 disabled seniors
- 2006 Completed construction of \$4 million Ewa Beach preschool facility
- 2006 Began operation of Pre Plus center at Kapolei
- 2009 Completed construction of Kailua Preschool classroom project \$490,000
- 2010 Completed (Phase I) \$1.9 million Ko Olina preschool construction
- 2011 Completed (Phase II) \$960,000 Ko Olina preschool construction
- 2012 Received Michelle Obama's Healthy School (anti-obesity campaign) award (one of eighteen schools to win award out of 6,000 applicants)
- 2012 Completed 740,000 photovoltaic installation at three childcare centers

B. Facilities

The applicant shall provide a description of its facilities and demonstrate its adequacy in relation to the request. If facilities are not presently available,

describe plans to secure facilities. The applicant shall also describe how the facilities meet ADA requirements, as applicable.

Seagull Schools currently operates seven childcare centers in Hawai‘i. The Seagull School in Kailua opened in 1970 with 38 children and expanded to 74 children in 2009. The Early Education Center is leased from the City and is located in the Capitol district. It is Hawai‘i’s largest childcare center with a capacity for 264 children. The Seagull School at Kapolei is owned by Seagull Schools and provides care for 240 children and 50 frail elderly adults. It was constructed in three phases from 1995 to 2002. Seagull Schools operates the guest childcare services at the Mauna Lani Resort on the Big Island. The Seagull Schools’ property at Ewa Beach is owned by Seagull Schools and it was constructed in 2006 for 240 children. The Seagull Schools’ property at Ko Olina is also owned by Seagull Schools and its final phase of construction for 150 children was completed in 2012. The Seagull Schools Pre Plus program at Kapolei Elementary School has provided care for 30 children since 2006.

The project for which this application supports is on land now leased from the state until 2073.

V. Personnel: Project Organization and Staffing

A. Proposed Staffing, Staff Qualifications, Supervision and Training

The applicant shall describe the proposed staffing pattern and proposed service capacity appropriate for the viability of the request. The applicant shall provide the qualifications and experience of personnel for the request and shall describe its ability to supervise, train and provide administrative direction relative to the request.

Seagull School’s founder and current executive director is Chuck Larson. He has a B.Ed. and M.Ed. and has had primary responsibility and over-sight of all Seagull Schools projects. He recently completed a four year term as a member of the State Early Learning Council.

The Chief of Operations is Jayne Arasaki. She has been employed at Seagull Schools since 1986 and has a B.Ed. and an M.Ed in Early Education. She has overall responsibility for program development, staff training, and safety and recruiting.

The Chief Financial Officer is Cheryl Campbell. She has been employed at Seagull Schools since 1994 and has had financial over-sight for all financial operations for the organization including four school construction projects.

Two of the Seagull Schools’ Board Members are architects and have had

involvement in four previous construction projects of Seagull Schools. They are Glenn Mason (Mason Architects) and Janine Clifford (Clifford Planning).

B. Organization Chart

The applicant shall illustrate the position of each staff and line of responsibility/supervision. If the request is part of a large, multi-purpose organization, include an organizational chart that illustrates the placement of this request.

See attachment

VI. Other

A. Litigation

The applicant shall disclose any pending litigation to which they are a party, including the disclosure of any outstanding judgement. If applicable, please explain.

There is no pending litigation.

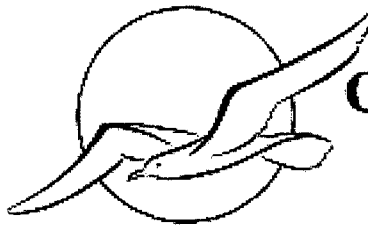
B. Licensure or Accreditation

The applicant shall specify any special qualifications, including but not limited to licensure or accreditation that applicant possesses relevant to this request.

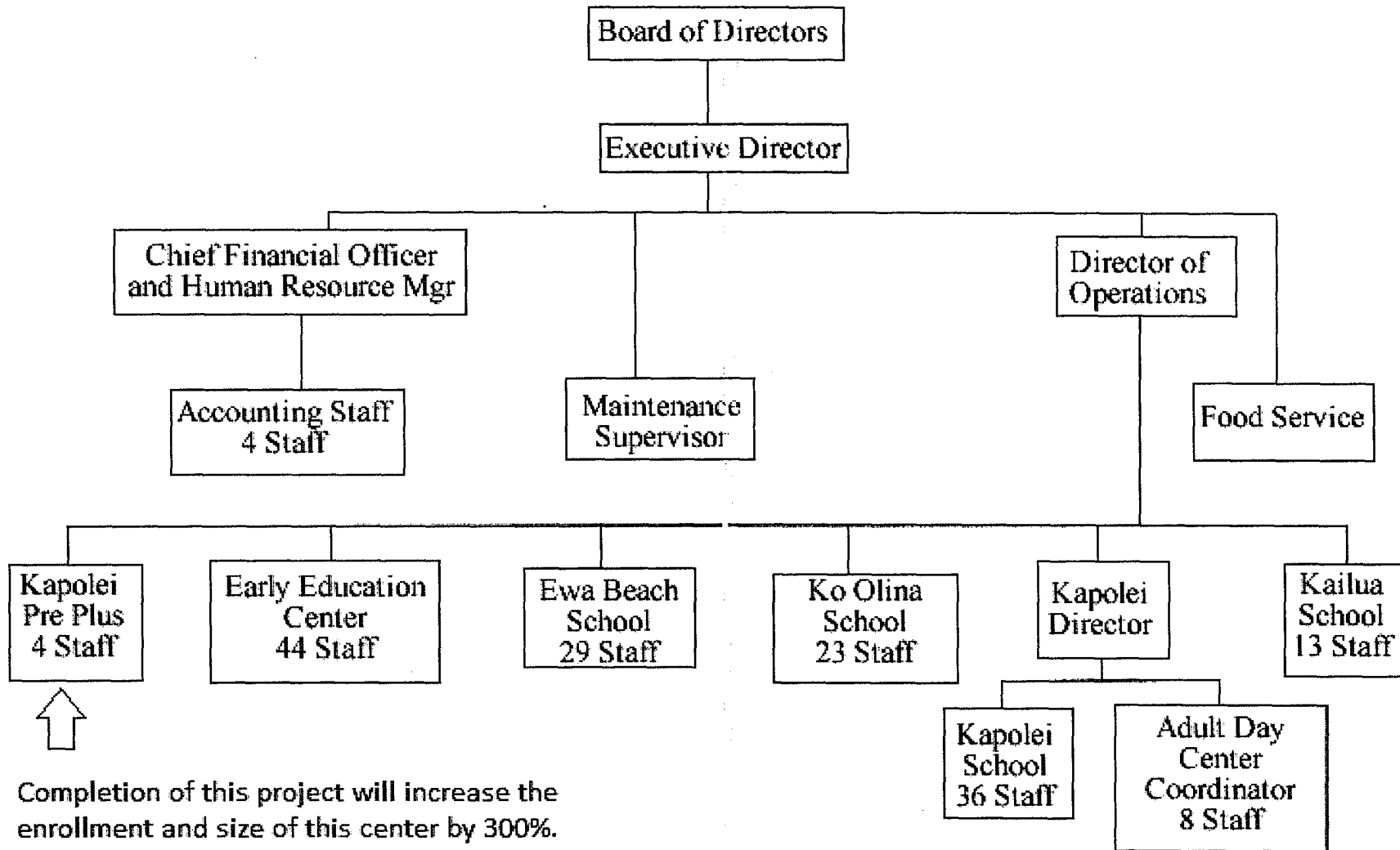
All of the Seagull School facilities are licensed by the State of Hawai'i DHS. All of the Seagull Schools are accredited by the NAEYC except for the new school at Ko Olina which is in the process of being accredited for the first time.

VII. Attachments

- A. Organization Chart
- B. Project Budget Forms
- C. Copy of License and Accreditation
- D. Letter of Determination – 501 (c) (3)
- E. Latest Audited Financial Statement
- F. Declaration Statement
- G. By Laws and Policies
- H. Biography of Executive Director



ORGANIZATIONAL CHART SEAGULL SCHOOLS, INC.



**BUDGET JUSTIFICATION
CAPITAL PROJECT DETAILS**

Applicant: Seagull Schools, Inc.

Period: July 1, 2013 to June 30, 2014

FUNDING AMOUNT REQUESTED						
TOTAL PROJECT COST	ALL SOURCES OF FUNDS RECEIVED IN PRIOR YEARS		STATE FUNDS REQUESTED	OTHER SOURCES OF FUNDS REQUESTED	FUNDING REQUIRED IN SUCCEEDING YEARS	
	FY: 2011-2012	FY: 2012-2013	FY:2013-2014	FY:2013-2014	FY:2014-2015	FY:2015-2016
PLANS				\$ 250,000.00	\$ -	
LAND ACQUISITION				\$ -	\$ -	
DESIGN				\$ 65,000.00	\$ -	
CONSTRUCTION			\$ 1,200,000.00	\$ 992,800.00		
EQUIPMENT				\$ 60,000.00	\$ -	
TOTAL:			\$ 1,200,000.00	\$ 1,367,800.00		
JUSTIFICATION/COMMENTS:						
The total project cost is \$2,342,800. This grant request is for approximately 50% of the total project cost.						

National Association for the Education of Young Children

Having met the NAEYC Early Childhood Program Standards,

Seagull School Pre Plus Facility

91-1119 Kama'aha Loop

Kapolei HI 96707

Program ID 725180

is hereby awarded

NAEYC Accreditation

by the NAEYC Academy for Early Childhood Program Accreditation

12/01/2014

Certificate is valid until date above.

www.rightchoiceforkids.org
accreditation.information@naeyc.org
800-424-2460



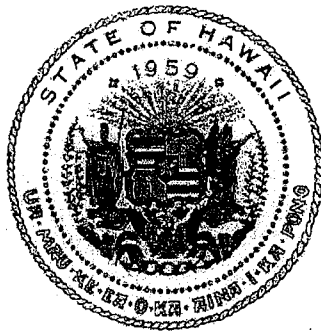
Mark R. Ginsberg, Ph.D.
NAEYC Executive Director

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
BENEFIT, EMPLOYMENT AND SUPPORT SERVICES DIVISION
THE KAPOLEI ELEMENTARY PRE PLUS FACILITY

is hereby granted a
Certificate of Approval

015607

*to operate a GCC - Preschool Program at
91-1119 KAMAAHA LP, KAPOLEI, HI 96707
for children not to exceed 30 in number. Said children shall be over 3 years of age and under 6
years of age. This certificate is issued in accordance with Section 346-161, Hawaii Revised
Statutes, 1985, for the period beginning May 17, 2012, and ending May 16, 2013, unless sooner
revoked for cause.*



PATRICIA McMANAMAN

Director, Department of Human Services

Administrator

**DECLARATION STATEMENT
APPLICANTS FOR GRANTS AND SUBSIDIES
CHAPTER 42F, HAWAII REVISED STATUTES**

The undersigned authorized representative of the applicant acknowledges that said applicant meets and will comply with all of the following standards for the award of grants and subsidies pursuant to section 42F-103, Hawaii Revised Statutes:

- (1) Is licensed or accredited, in accordance with federal, state, or county statutes, rules, or ordinances, to conduct the activities or provide the services for which a grant or subsidy is awarded;
- (2) Comply with all applicable federal and state laws prohibiting discrimination against any person on the basis of race, color, national origin, religion, creed, sex, age, sexual orientation, or disability;
- (3) Agree not to use state funds for entertainment or lobbying activities; and
- (4) Allow the state agency to which funds for the grant or subsidy were appropriated for expenditure, legislative committees and their staff, and the auditor full access to their records, reports, files, and other related documents and information for purposes of monitoring, measuring the effectiveness, and ensuring the proper expenditure of the grant or subsidy.

In addition, a grant or subsidy may be made to an organization only if the organization:

- (1) Is incorporated under the laws of the State; and
- (2) Has bylaws or policies that describe the manner in which the activities or services for which a grant or subsidy is awarded shall be conducted or provided.

Further, a grant or subsidy may be awarded to a non-profit organization only if the organization:

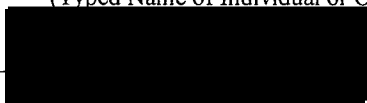
- (1) Has been determined and designated to be a non-profit organization by the Internal Revenue Service; and
- (2) Has a governing board whose members have no material conflict of interest and serve without compensation.

For a grant or subsidy used for the acquisition of land, when the organization discontinues the activities or services on the land acquired for which the grant or subsidy was awarded and disposes of the land in fee simple or by lease, the organization shall negotiate with the expending agency for a lump sum or installment repayment to the State of the amount of the grant or subsidy used for the acquisition of the land.

Further, the undersigned authorized representative certifies that this statement is true and correct to the best of the applicant's knowledge.

Seagull Schools

(Typed Name of Individual or Organization)



1/22/2013

(Date)

Charles E Larson
(Typed Name)

Executive Director
(Title)

Internal Revenue Service
District Director

Department of the Treasury
LA:EO:79 1271

Date: 07 JUN 1979

Our Letter Dated: January 24, 1974
and May 18, 1976

Person to Contact: W. E. Pure

Contact Telephone Number:
(213) 688-5787

▷ Seagull School
1300 Kailua
Kailua, Hawaii 96734

Gentlemen:

This modifies our letter of the above date in which we stated that you would be treated as an organization which is not a private foundation until the expiration of your advance ruling period.

Based on the information you submitted, we have determined that you are not a private foundation within the meaning of section 509(a) of the Internal Revenue Code, because you are an organization of the type described in section 170(b)(1)(A)(vi)* Your exempt status under section 501(c)(3) of the code is still in effect.

Grantors and contributors may rely on this determination until the Internal Revenue Service publishes notice to the contrary. However, a grantor or a contributor may not rely on this determination if he or she was in part responsible for, or was aware of, the act or failure to act that resulted in your loss of section 170(b)(1)(A)(vi)* status, or acquired knowledge that the Internal Revenue Service had given notice that you would be removed from classification as a section 170(b)(1)(A)(vi)* organization.

Because this letter could help resolve any questions about your private foundation status, please keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,


W. H. Connett
District Director

* and section 509(a)(1)

BYLAWS OF SEAGULL SCHOOLS. INC.

ARTICLE I

Name, Office and Seal

- Section 1.01. NAME. The name of the corporation is Seagull Schools, Inc.
- Section 1.02. PRINCIPAL PLACE OF BUSINESS. The initial principal place of business of the corporation is the Christ Presbyterian Church, 1300 Kailua Road, Kailua, Hawaii 96734. The board of directors may from time to time change the principal place of business to another place in Hawaii.

ARTICLE II

- Section 2.01. MEMBERSHIP. (a) The initial members of the corporation shall consist of the petitioners listed in the charter of incorporation. (b) Any other person elected to membership of the corporation shall be a member.

ARTICLE III

Board of Directors

- Section 3.01. POWERS. The activities, affairs and property of the corporation are managed, directed and controlled, and its powers exercised by, and vested in, the board of directors, except as otherwise provided by these bylaws.
- Section 3.02. NUMBER, QUALIFICATIONS, TERMS OF OFFICE AND SELECTION OF DIRECTORS. (a) The board of directors, hereinafter referred to as the Board, consists of at least seven but no more than thirty directors, each of whom must be at least 18 years of age. (b) A director shall serve for a period of three years. Any director may be re-elected for any number of successive terms. (c) New directors shall be elected by the current directors at the annual meeting thereof as provided for in section 3.06 or at any other board meeting when there exists a vacancy on the Board.
- Section 3.03. RESIGNATION. A director may resign at any time by delivering a written resignation to the president or the secretary of the corporation.

Section 3.04. REMOVAL. A director may be removed at any time with the affirmative vote of a two-thirds majority of all the members of the Board present and voting at a meeting of the members, a notice of which, given pursuant to the requirements of Section 3.09, shall have specified the proposed removal. A director may also be removed pursuant to Section 3.15.

Section 3.05. VACANCIES. Any time the number of directors for any reason becomes less than five, the vacancy or vacancies shall be filled within 30 days by the remaining directors, or as soon as possible thereafter. Any time the number of directors is at least five but not thirty, the remaining directors may fill the vacancy or vacancies at any time.

Section 3.06. ANNUAL MEETING OF THE DIRECTORS. The annual meeting of the directors of the corporation shall be held at a location determined by the president.

Section 3.07. OTHER MEETINGS. Regular meetings of the Board shall be held at least every other month. Special meetings shall be held at any time when called by order of the president or any three directors.

Section 3.08. PLACE OF MEETING. Each meeting of the Board shall be held at the place specified in the notice of the meeting.

Section 3.09. NOTICE. Notice of each meeting of the Board shall be provided to each director, not less than five nor more than twenty days before the day on which the meeting is to be held. Each notice shall state the purpose of the meeting, and the time and place of the meeting. Notice of any meetings of the Board need not be given to any director who waives the notice in writing or by telephone whether before or after the meeting, or if the director is present at the meeting. No notice need be given of any adjourned meeting.

Section 3.10. QUORUM. The presence at any meeting of the Board, in person, of five directors is necessary and sufficient to constitute a quorum.

Section 3.11. ADJOURNMENT. A majority of those directors present may by resolution adjourn the meeting from time to time for a period not exceeding 20 days in anyone case. At any duly adjourned meeting at which a quorum is present, any business may be transacted

which might have been transacted at the meeting as originally called.

Section 3.12. ORGANIZATION. At each meeting of the Board, the president shall act as the chairman of the meeting, or in the president's absence, the vice- president. The secretary, or in the secretary's absence, the person whom the chairman of the meeting shall appoint as secretary of the meeting, shall act as such.

Section 3.13. VOTING. At all meetings of the Board, except as otherwise expressly required by these bylaws, all matters shall be decided by the vote of the majority of the directors present at the meeting.

Section 3.14. ANNUAL REPORTS. The executive director shall present, at each annual meeting of the members of the Board, an annual report of the corporation's activities during the preceding fiscal year and such reports as may be required by all applicable statutes.

Section 3.15. ATTENDANCE. A director who misses three consecutive, properly noticed Board meetings, without a written explanation satisfactory to the Board may be removed by the affirmative vote of a majority of the directors present at a meeting of the Board, the notice of which has specified the proposed removal.

Section 3.16. ADVISORY COUNCIL. There shall be an advisory council to the Board composed of persons whom wish to serve Seagull Schools upon special assignment. Membership on the advisory council requires a two-thirds vote of the members of the Board present at the annual meeting. Members of the advisory council shall be entitled to receive notice of and to attend all meetings of the Board, but shall have no vote.

ARTICLE IV Officers

Section 4.01. TITLES. The officers of the corporation include the president, vice-president (the president elect), the secretary, and the treasurer. All officers shall be selected by the board of directors. A person may hold the offices of treasurer and secretary at the same time.

Section 4.02. TIME OF APPOINTMENT AND TERM OF OFFICE. All officers shall be appointed by the board of directors for a term of two years at the annual meeting . New officers shall be appointed bi-annually thereafter by the board of directors.

Section 4.03. RESIGNATIONS. Any officer may resign at any time by delivering a written resignation to the president or the secretary.

Section 4.04. REMOVAL. Any officer may be removed at any time, either with or without cause, by a vote of a majority of directors at a meeting the notice or waiver of notice of which specified the proposed removal.

Section 4.05. VACANCIES. Any vacancy in an office may be filled for the unexpired portion of the term by the board of directors or in the case of subordinate officers, by any committee, officer, or agent to whom the power to fill such vacancy has been delegated by the board of directors.

Section 4.06. PRESIDENT. The president shall preside at all meetings of the board of directors and the executive committee, and shall have such other powers and duties not inconsistent with these bylaws.

Section 4.07. VICE-PRESIDENT. The vice-president acts as president during the absence or incapacity of the president and shall perform such other powers and duties not inconsistent with these bylaws as may be assigned from time to time by the president. The vice-president shall serve as president upon the completion of the current president's term.

Section 4.08. SECRETARY. The secretary shall;

(1) Assure adequate care of all pertinent records and documents of the corporation; and

(2) Review and sign the approved minutes of all the meetings of the Board of directors.

Section 4.09. TREASURER. The treasurer shall;

- (1) Serve as chairperson of the business /finance committee;
- (2) Assure that policies and procedures for: (a) the care of moneys due and payable to the corporation; (b) depositing moneys received in the name of the corporation, and (c) disbursement of the monies of the corporation are in accordance with the directions of the Board and sound financial standards.
- (3) Assure that an independent financial audit of the corporation is completed annually for review by the board of directors.
- (4) In general, have such powers and perform such other duties, not inconsistent with these bylaws, as are incident to the officer of treasurer or as may be determined from time to time by the board of directors or the president.

ARTICLE V **Committees**

Section 5.01. EXECUTIVE COMMITTEE. The president, vice president, secretary, treasurer, and past president make up the executive committee, which serves at the request of the president.

Section 5.02. OTHER COMMITTEES. The Board will establish a business/finance committee, a nominating committee, and a strategic planning committee. The Board, from time to time, may establish other committees as needed. Any member of these committees may be removed, with or without cause, at any time by the Board.

ARTICLE VI **Loans and Contracts**

Section 6.01 LOANS. No loans or advances shall be contracted on behalf of the corporation, and no note or other evidence of indebtedness shall be issued in its name, unless and except as authorized by the Board.

Section 6.02 CONTRACTS. The president, vice-president, or any other officer authorized by the Board, may, in the name and on behalf of the corporation, enter into those contracts or execute and deliver

those instruments that are authorized by the Board. Any authorization may be general or confined to specific instances. Without such authorization of the Board, no officer or agent of the corporation may enter into any contract or execute and deliver any instrument in the name and on behalf of the corporation.

ARTICLE VII

Compensation of and Contracts with Directors and Officers

Section 7.01. COMPENSATION OF DIRECTORS AND OFFICERS. The directors of the corporation shall serve as such without compensation and directors shall have no material conflict of interest.

Section 7.02 CONTRACT WITH DIRECTORS AND OFFICERS. No director or officer of the corporation shall be interested, directly or indirectly, in any transaction relating to the operations conducted by it, nor in any contract transaction relating to the furnishing of services or supplies to it, unless:

(1) Each such transaction is authorized by a unanimous vote of the Board at a meeting at which the presence of such a director is not necessary for the authorization.

{2) Not less than five days nor more than 20 days before the Board considers the transaction, the fact and nature of the interest has been fully disclosed in writing to all member of the board of directors.

ARTICLE VIII

Indemnification of Directors and Officers

Section 8.01. INDEMNIFICATION. A person (and the heirs, executors, and administrators of the person) who is made or who is threatened to be made a party to any action, suit or proceeding by reason of the fact that the person is or was a director or officer of the corporation shall be indemnified by the corporation against any and all liability and the reasonable expenses, including attorney's fees and disbursements, incurred by the person (or the heirs,

executors, or administrators of the person) in connection with the defense or settlement of such action, suit or proceeding, or in connection with any appearance therein, except in relation to matters as to which it shall be adjudged in such action, suit, or proceeding that the director or officer is liable for negligence or misconduct in the performance of duties.

ARTICLE IX **Amendment of Bylaws**

Section 9.01. AMENDMENT OF BYLAWS. Except as otherwise provided in Section 9.02 below, these bylaws may be amended or repealed and a new bylaw or bylaws may be enacted at any regular or special meeting of the Board by two-thirds (2/3) vote of those present provided that notice of the proposed amendment has been submitted in writing and shall have been included in the notice of the meeting at least two (2) weeks prior to the meeting.

Section 9.02 Any proposed amendment by the board of directors to these Bylaws that impacts the rights, interests or make-up of the membership of the corporation as defined in Article II shall also require the affirmative vote of two-thirds of the membership within 30 days of passage of such bylaw by the board, or the bylaw shall be deemed rejected.

ARTICLE X **Miscellaneous**

Section 10.01. FISCAL YEAR. The fiscal year of the corporation is the period from July 1 of one year to June 30 of the following year.

Biography of Executive Director

Chuck Larson is the founder and Executive Director of Seagull Schools. He has a Bachelor's Degree in Primary Education and a M. Ed. in teaching exceptional children. From 2008 – 2012 he served as the governor's appointee to the Early Learning Council to be representative of the private sector. He is also a past member of the Kailua-Waimanalo Community Education Coalition, the Honolulu County Commission on the Status of Women, and the State Committee to develop new licensing regulations for infant/toddler care.

He is also a past president of the Waimanalo Methodist Church, a past secretary for the Polynesian Voyaging Society and former crewmember on the Hokule'a. He is the current president of the Hawai'i Intergenerational Network and is a member of the Kokua Council for Senior Citizens. He is a co-founder and active member of the Childcare Business Coalition and is currently active in the intergenerational field through his writings and lectures. He previously served as a validator for preschools applying for accreditation from NAEYC.

In his position as Executive Director he had oversight in developing the Seagull Schools capital projects at Kapolei, Kailua, Ewa Beach, and Ko Olina that raised more than \$11 million from public and private sources.

SEAGULL SCHOOLS, INC.
(A Non-Profit Corporation)

FINANCIAL STATEMENTS
Year Ended June 30, 2011
(With Summarized Comparative Totals for 2010)

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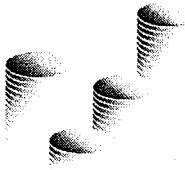
INDEPENDENT AUDITOR'S REPORTS

JAMES D. JENNINGS, CPA, INC.
Certified Public Accountants
Honolulu, Hawaii

SEAGULL SCHOOLS, INC.
(A Non-Profit Corporation)

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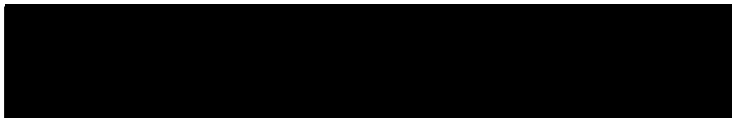
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Seagull Schools, Inc.
Kailua, Hawaii

We have audited the accompanying statements of financial position of Seagull Schools, Inc. (the "School") as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated November 8, 2010, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial position of Seagull Schools, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



December 12, 2011

SEAGULL SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS		
	2011	2010
Current Assets		
Cash and cash equivalents	\$ 2,518,518	\$ 1,788,600
Grants receivable	-	36,000
Accounts receivable	259,121	281,201
Promise receivable	-	7,500
Prepaid expenses	88,425	126,950
Total current assets	2,866,064	2,240,251
Property and equipment, net	13,932,621	14,274,242
Other Assets		
Construction in progress	162,498	-
Total assets	\$ 16,961,183	\$ 16,514,493
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 16,950	\$ 28,662
Accrued expenses	78,659	70,557
Accrued payroll and related liabilities	367,231	259,292
Tuition deposits	480,272	462,953
Deferred revenues	186,254	86,582
Note payable - current portion	114,700	78,400
Total current liabilities	1,244,066	986,446
Other Liabilities		
Note payable - noncurrent portion	4,530,556	4,245,202
Total liabilities	5,774,622	5,231,648
Net Assets		
Unrestricted	11,171,250	11,268,209
Temporarily restricted	15,311	14,636
Total net assets	11,186,561	11,282,845
Total liabilities and net assets	\$ 16,961,183	\$ 16,514,493

See notes to financial statements

SEAGULL SCHOOLS, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011 with Summarized Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Total	
			2011	2010
Revenue and net assets released from restrictions:				
Tuition and fees	\$ 6,974,194	\$ 161,188	7,135,382	\$ 6,973,039
Contributions	214,542	-	214,542	874,849
Fundraising	12,222	-	12,222	12,067
Rental income	31,950	-	31,950	20,842
Investment income	3,683	-	3,683	6,739
Other income	191,087	-	191,087	116,221
Net assets released from restriction:				
Satisfaction of program restriction	<u>160,513</u>	<u>(160,513)</u>	<u>-</u>	<u>-</u>
Total revenue and net assets released from restrictions:	<u>7,588,191</u>	<u>675</u>	<u>7,588,866</u>	<u>8,003,757</u>
Expenses:				
Program services	<u>6,944,878</u>	<u>-</u>	<u>6,944,878</u>	<u>6,228,638</u>
Supporting activities				
Management and general	544,526	-	544,526	483,782
Fundraising	<u>145,428</u>	<u>-</u>	<u>145,428</u>	<u>122,473</u>
Total supporting activities	<u>689,954</u>	<u>-</u>	<u>689,954</u>	<u>606,255</u>
Total expenses	<u>7,634,832</u>	<u>-</u>	<u>7,634,832</u>	<u>6,834,893</u>
Change in net assets	(46,641)	675	(45,966)	1,168,864
Net assets, beginning of year				
As previously reported	11,268,209	14,636	11,282,845	10,113,981
Adjustment for understatement of tuition aid	<u>(50,318)</u>	<u>-</u>	<u>(50,318)</u>	<u>-</u>
Net assets, beginning of year restated	<u>11,217,891</u>	<u>14,636</u>	<u>11,232,527</u>	<u>10,113,981</u>
Net assets, end of year	<u>\$11,171,250</u>	<u>\$ 15,311</u>	<u>\$11,186,561</u>	<u>\$11,282,845</u>

See notes to financial statements

SEAGULL SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011 with Summarized Comparative Totals for 2010

	Program Services	Supporting Activities			Total	
		Management and General	Fundraising	Total Supporting Activities	2011	2010
Personnel Expenses:						
Salaries and wages	\$ 3,969,519	\$ 352,846	\$ 88,212	\$ 441,058	\$4,410,577	\$4,061,903
Payroll taxes	390,400	34,702	8,676	43,378	433,778	367,578
Employee benefits	544,829	48,430	12,107	60,537	605,366	540,330
Total personnel expenses	<u>4,904,748</u>	<u>435,978</u>	<u>108,995</u>	<u>544,973</u>	<u>5,449,721</u>	<u>4,969,811</u>
Operating Expenses:						
Food	448,555	3,841	-	3,841	452,396	420,906
Depreciation and amortization	425,929	-	-	-	425,929	271,577
Occupancy	192,595	12,465	-	12,465	205,060	204,823
Interest expense	189,866	-	-	-	189,866	193,900
Contractual services	121,572	29,157	3,403	32,560	154,132	148,821
Office supplies	113,753	11,967	20,796	32,763	146,516	127,684
Utilities	126,648	1,810	-	1,810	128,458	112,786
Insurance	121,426	8,177	-	8,177	129,603	68,496
Equipment rental and maintenance	31,902	5,956	-	5,956	37,858	54,540
Bank fees	66,928	-	-	-	66,928	50,144
Repairs and maintenance	25,737	425	-	425	26,162	49,451
Bad debts	33,666	-	-	-	33,666	45,086
Advertising	14,427	2,891	-	2,891	17,318	21,397
Telephone	22,123	3,513	-	3,513	25,636	21,312
Employee recruitment and training	17,288	904	-	904	18,192	20,391
Taxes, licenses and fees	23,439	-	2,576	2,576	26,015	20,115
Travel	14,048	5,341	-	5,341	19,389	17,950
Meetings and conferences	2,627	9,233	88	9,321	11,948	13,054
Program activities	(3,165)	79	5,791	5,870	2,705	6,819
Administrative overhead	-	-	-	-	-	-
Financial aid	14,255	-	-	-	14,255	-
Miscellaneous	36,511	12,789	3,779	16,568	53,079	(4,170)
Total operating expenses	<u>2,040,130</u>	<u>108,548</u>	<u>36,433</u>	<u>144,981</u>	<u>2,185,111</u>	<u>1,865,082</u>
Total expenses	<u>\$ 6,944,878</u>	<u>\$ 544,526</u>	<u>\$ 145,428</u>	<u>\$ 689,954</u>	<u>\$7,634,832</u>	<u>\$6,834,893</u>

See notes to financial statements

SEAGULL SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	\$ (96,284)	\$ 1,168,864
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	425,929	271,577
Changes in operating assets and liabilities:		
Grants receivable	36,000	51,782
Accounts receivable	22,080	(131,905)
Promise receivable	7,500	-
Prepaid expenses	38,525	(20,115)
Construction in progress	(162,498)	777,883
Accounts payable	(11,712)	11,748
Accrued expenses	8,102	(1,723)
Accrued payroll and related liabilities	107,939	27,021
Tuition deposits	17,319	3,433
Deferred revenue	<u>99,672</u>	<u>(10,692)</u>
Net cash provided by operating activities	<u>492,572</u>	<u>2,147,873</u>
 Cash Flows From Investing Activities:		
Purchase of property and equipment	<u>(84,308)</u>	<u>(3,148,157)</u>
Net cash used by investing activities	<u>(84,308)</u>	<u>(3,148,157)</u>
 Cash Flows From Financing Activities:		
Net receipts/(payments) on long term debt	<u>321,654</u>	<u>(74,619)</u>
Net cash provided/(used) by financing activities	<u>321,654</u>	<u>(74,619)</u>
Net increase/(decrease) in cash and cash equivalents	<u>729,918</u>	<u>(1,074,903)</u>
 Cash and Cash Equivalents:		
Beginning of year	<u>1,788,600</u>	<u>2,863,503</u>
End of year	<u>\$ 2,518,518</u>	<u>\$ 1,788,600</u>
 <i>Supplemental cash information</i>		
Interest paid	<u>\$ 189,866</u>	<u>\$ 193,900</u>

See notes to financial statements

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities

Seagull Schools, Inc. was incorporated in 1973 and operates five childcare centers, an elderly center, and an elementary after school program on the islands of Hawaii. The mission of the Schools is to respond to the education and care needs of Hawaii's diverse community by providing programs of the highest value.

The Schools receives the majority of its revenue from tuition, the federal government, and contribution from trusts and foundations.

Summary of Significant Accounting Policies

Basis of accounting

The financial statements of the School have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation

Financial statement presentation follows Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Schools. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

For purposes of the financial statements, the School considers all unrestricted highly liquid investments with an initial maturity of one year or less to be cash equivalents.

Comparative information

For comparative purposes, the financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2010 from which the summarized information was derived

Income tax status

Seagull Schools, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Seagull Schools, Inc.'s tax-exempt purpose is subject to taxation as unrelated business income. In addition, Seagull Schools, Inc. qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

1. Nature of Activities and Summary of Significant Accounting Policies – (Continued)

Income tax status – (Continued)

Seagull Schools, Inc. adopted the provisions of ASC 740, *Income Taxes*, on July 1, 2009. As required by the uncertain tax position guidance in ASC 740, Seagull Schools, Inc. recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position after an audit. At the adoption date, Seagull Schools, Inc. applied the uncertain tax position guidance in ASC 740 to all tax positions for which the statute of limitations has remained open. As a result of the implementation of the uncertain tax position guidance in ASC 740, Seagull Schools, Inc. has not recognized additional liability for unrecognized tax benefits nor any interest and penalties as of June 30, 2011. Management does not anticipate that this will change significantly in the next twelve months.

The Organization files income tax returns in the U.S. federal jurisdiction. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, The Organization is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting activities. Expenses related to more than one functional service is charged to programs and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Property and equipment

Property and equipment are recorded at cost or estimated fair market value at the date of donation. Depreciation is calculated using the straight-line method based on the respective estimated useful lives, ranging from 3 to 7 years for furnishings, equipment, and vehicles, and 10 to 40 years for the buildings and improvements. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful lives of assets ranging from 5 to 40 years. Depreciation and amortization expense for 2011 and 2010 was \$425,929 and \$271,577.

Purchased or donated assets in excess of \$1,000 are capitalized. Expenditures for maintenance, repairs and renewals of minor items are charged to earnings as incurred. Major renewals and improvements are capitalized.

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

1. Nature of Activities and Summary of Significant Accounting Policies – (Continued)

Property and equipment – (Continued)

Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the Statement of Activities and Changes in Net Assets.

Long-Lived Assets

Long-lived assets held and used by the Schools are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such events or changes occur, an estimate of the future cash flows expected to result from the use of the assets and their eventual disposition is made. If the sum of such expected future cash flows (undisclosed and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized in an amount by which the assets' net book value exceed fair values.

Lease Commitments

Leases that transfer substantially all of the risks and benefits of ownership are considered capital leases. Other leases are classified as operating leases. Capital leases are amortized using the straight-line method over the lesser of their lease term or their estimated useful lives.

Recognition of government grant revenue

Government grants are received from the federal and state governments. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues on fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. These revenues are generally considered exchange transactions, and are recorded as revenues of the unrestricted net asset class.

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

2. Cash

The School maintains its cash and cash equivalents at financial institutions in Hawaii. Deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances for the year ended June 30, 2011 and 2010 were \$1,874,000 and \$1,195,000.

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

3. Promises to give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. For the years ended June 30, 2011 and 2010, promise receivable balance was \$0 and -.

4. Property and equipment

Property and equipment consisted of the following asset categories as of June 30, 2011 and 2010:

	2011	2010
Buildings	\$13,063,590	\$13,039,216
Land	1,445,000	1,445,000
Improvements	1,369,421	1,369,421
Furniture and fixtures	480,876	430,202
Transportation	125,857	127,557
Machine equipment	103,037	102,289
Office equipment	102,209	91,997
	16,689,990	16,605,682
Less accumulated depreciation	2,757,369	2,331,440
	\$13,932,621	\$14,274,242

5. Notes Payable

In 2008, Seagull Schools, Inc. obtained a \$750,000 loan from the U.S. Department of Agriculture (USDA) and another \$750,000 loan from Bank of Hawaii, which was guaranteed by USDA. These two loans were obtained for the purchase of land in Kapolei. The first \$750,000 USDA loan bears a fixed rate of 4.5% per annum and expires on May 30, 2048. Monthly installments of principal and interest of \$3,375 are required. Second \$750,000 loan by Bank of Hawaii, guaranteed by USDA, bears a fixed rate of 5.67% per annum and expires on June 10, 2023. Monthly installments of principal and interest of \$6,196 are required.

In addition, in 2007, Seagull Schools, Inc. obtained a \$3,000,000 loan from U.S. Department of Agriculture for the construction of its Ewa School. This loan bears a fixed rate of 4.125% per annum and expires on June 30, 2048. Monthly installments of principal and interest of \$12,780 are required. The loan is collateralized by all of the School's assets including cash, deposit accounts, accounts receivable, inventory and fixed assets.

In addition, in 2011, Seagull Schools, Inc. obtained a \$400,000 loan from First Hawaiian Bank for the construction of Phase II of its Ko'olina School. This loan bears a fixed rate of 4.5% per annum and expires in 2016. Monthly installments of principal and interest of \$4,146 are required.

For the years ended June 30, 2011 and 2010, total interest expense was \$189,866 and \$193,900.

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

5. Notes Payable – (Continued)

Future annual principal payments of these notes are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 114,700
2013	120,300
2014	126,200
2015	132,400
2016	138,800
Thereafter	<u>4,012,856</u>
	4,645,256
Less current portion:	<u>114,700</u>
	<u>\$ 4,530,556</u>

6. Lease Commitments

Seagull Schools, Inc. leases facilities for its childcare center programs under operating leases. In addition to the monthly base rent for facilities, a pro-rata portion of facility operating expenses and general excise taxes are payable.

Total rent expense for the years ended June 30, 2011 and 2010 was \$205,060 and \$204,823, respectively.

Future minimum lease payments under the operating leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 49,752
2013	49,752
2014	49,752
2015	49,752
2016	49,752
Thereafter	<u>72,000</u>
	<u>\$ 320,760</u>

In addition, Seagull Schools leases facilities for its Kailua office under operating lease effective October 11, 2006 until October 11, 2021. Monthly base rent is \$3,862, adjusted annually for inflation for Honolulu consumer price index, not to exceed 7% in any given year, plus applicable taxes.

The Schools lease its Kapolei facility to various organizations under short-term cancelable leases. Rental income from all leases for the years ended June 30, 2011 and 2010 was \$31,950 and \$20,842, as reflected as rental income on the Statements of Activities.

SEAGULL SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011 and 2010

7. Pension Plan

The School participates in 401(k) defined contribution retirement plan. Employees become eligible after one year of employment and attainment of the age of 21. Eligible employees may contribute the maximum allowed by law to the plan. Under the plan, the School makes a contribution equal to 5% of the eligible employee's contribution for all eligible employees participating in the plan. Pension expense for the years ended June 30, 2011 and 2010 was \$69,084 and \$90,479 and is included in the employee benefits expense in the Statement of Functional Expenses.

8. Deferred revenues

Deferred revenues represent prepaid tuition fees collected during the fiscal year. For June 30, 2011 and 2010, the total deferred revenues are \$186,254 and \$86,582.

9. Net Assets

Temporarily restricted net assets

For the period ending June 30, 2011, Seagull Schools, Inc.'s donor restricted net assets are released and available for the following purposes:

<u>Restriction</u>	<u>Released</u>	<u>Available</u>
Tuition aid	\$ 160,513	\$ 15,311
	<u>\$ 160,513</u>	<u>\$ 15,311</u>

10. Prior Period Adjustment

An error resulting to the understatement of previously reported deferred tuition aid was discovered during the current year. Accordingly, adjustments were made for the deferral. The effect of this restatement on net assets for 2010 was a decrease of \$50,318.

11. Subsequent Event

In preparing these financial statements, Seagull Schools, Inc. has evaluated events and transactions for potential recognition or disclosure through December 12, 2011, the date the financial statements were available to be issued. At the end of August 2011, Seagull Schools, Inc. closed their Mauna Lani School location.