

**Twin Oaks Juvenile
Development, Inc.**

Audited Financial Statements

June 30, 2012

Twin Oaks Juvenile Development, Inc.
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June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Bristol, Florida

We have audited the accompanying statement of financial position of Twin Oaks Juvenile Development, Inc. (a nonprofit organization) as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Twin Oaks Juvenile Development, Inc.'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. 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 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 Twin Oaks Juvenile Development, Inc. as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012 on our consideration of Twin Oaks Juvenile Development, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenue and Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local governments, and Non-Profit Organizations and Chapter 10.65, Rules of the Auditor General and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carr, Riggs & Ingram, L.L.C.

October 25, 2012

Twin Oaks Juvenile Development, Inc.
Statement of Financial Position

June 30, 2012

Assets

Current assets	
Cash and cash equivalents	\$ 953,801
Restricted cash and cash equivalents	845,764
Accounts receivable	2,269,068
Prepaid expenses	60,676
<hr/>	
Total current assets	4,129,309
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Non-current assets	
Restricted cash and cash equivalents	2,210,149
Deferred charges - bonds	958,712
Property and equipment - net	16,912,143
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Total non-current assets	20,081,004
<hr/>	
Total assets	\$ 24,210,313

Liabilities and net assets (deficit)

Current liabilities	
Accounts payable and accrued expenses	\$ 866,508
Accrued payroll liabilities	1,117,797
Accrued interest	652,308
Current portion of capital lease obligation	184,728
Current portion of bonds payable	19,669,943
Current portion of notes payable	956,668
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Total current liabilities	23,447,952
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Non-current liabilities	
Capital lease obligation, less current portion	238,312
Notes payable, less current portion	952,342
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Total non-current liabilities	1,190,654
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Total liabilities	24,638,606
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Net assets (deficit)	
Unrestricted	(3,484,206)
Restricted for bond reserves and sinking funds	3,055,913
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Total net assets (deficit)	(428,293)
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Total liabilities and net assets (deficit)	\$ 24,210,313

See accompanying notes to financial statements.

Twin Oaks Juvenile Development, Inc.
Statement of Activities

Year ended June 30, 2012

Revenue and other support

Program service fees	\$ 19,079,192
Education - FTE	1,537,635
Medicaid	1,497,012
National school lunch program	413,710
Miscellaneous	9,372

Total revenue and other support 22,536,921

Expenses

Program services	20,859,772
Management and general	2,000,409
Other expenses	76,207

Total expenses 22,936,388

Change in unrestricted net assets (399,467)

Beginning net assets (deficit) (28,826)

Ending net assets (deficit) \$ (428,293)

See accompanying notes to financial statements.

Twin Oaks Juvenile Development, Inc.
Statement of Cash Flows

Year ended June 30, 2012

Operating activities	
Change in unrestricted net assets	\$ (399,467)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:	
Loss on disposition of assets	59,571
Depreciation	531,441
Amortization	69,001
(Increase) decrease in assets:	
Accounts receivable	(204,476)
Prepaid expenses	24,388
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	3,366
Accrued payroll liabilities	(140,716)
Accrued interest	(24,880)
Net cash used in operating activities	(81,772)
Investing activities	
Purchase of property and equipment	(313,798)
Net cash used in investing activities	(313,798)
Financing activities	
Change in restricted cash - noncurrent	90,275
Proceeds from borrowings and line of credit	7,557,051
Principal and line of credit repayments	(8,607,979)
Net cash used in financing activities	(960,653)
Net change in cash and cash equivalents	(1,356,223)
Beginning cash and cash equivalents	3,155,788
Ending cash and cash equivalents	\$ 1,799,565
Ending cash and cash equivalents are presented on the statement of financial position as:	
Cash and cash equivalents	\$ 953,801
Restricted cash and cash equivalents (current)	845,764
Total cash and cash equivalents	\$ 1,799,565
Supplemental cash flow information:	
Cash paid for interest	\$ 1,141,167

See accompanying notes to financial statements.

Twin Oaks Juvenile Development, Inc. Notes to Financial Statements

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

Twin Oaks Juvenile Development, Inc. (the Organization) is a Florida not-for-profit corporation. The Organization serves delinquent juveniles in five diverse programs in North Florida. The Organization operates various programs to serve youth offenders in a variety of programs in Liberty, Madison and Jackson County. Included in these operations is Greenville Hills Academy located in Madison County, which the Organization purchased in July of 2005 for approximately \$10 million. There are programs that provide services to juvenile offenders by providing them with a unique setting with a balanced approach to lead to successful and safe integration of the youth into the family and community as a responsible, productive and accountable citizen. Various services provide education and vocational opportunities. Programs also provide competency restoration services, case management and community liaison services, including treatment and/or retardation training, for the purpose of restoring the juvenile's competency to proceed.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets presented are unrestricted and restricted in nature. Restricted assets are comprised of cash for bond reserves and sinking fund accounts, less the current portion of bonds payable.

Accounts Receivable

Accounts receivable represent amounts due from contracts with Department of Juvenile Justice (DJJ), Department of Children & Families (DCF), Department of Transportation (DOT), Jackson County School Board (JCSB), Medicaid and the National School Lunch Program (NSLP) and the Boys and Girls Club of America. Allowance for doubtful accounts are based on management's judgment, including historical data and the age, nature and source of each receivable. Receivables are considered past due after 30 days. Management asserts that all receivables are 100% collectible as of June 30, 2012; therefore, no allowance for doubtful accounts has been recorded.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash deposits with banks, money market funds, and certificates of deposit with original maturities of 90 days or less attributable to the Organization's operating funds. Current restricted cash consists of debt service sinking funds which are utilized for the payment of the current portion of debt. Noncurrent restricted cash consists of reserve and other additional funds required according to the Organization's bond issues.

Property and Equipment

Property and equipment are recorded at cost. Major renewals and betterments are capitalized; maintenance and repairs are charged to expense. The Organization's policy is to capitalize property and equipment with a cost greater than \$500. The cost of assets sold or retired and the related accumulated depreciation is eliminated from the appropriate accounts and resulting gain or loss is included in other income. Provision for depreciation is computed using the straight line method over estimated useful lives, ranging from 5 to 39 years.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue consists of fee-for-service contracts with various federal, state and local government agencies. Revenue is also received from Medicaid for Medicaid-eligible clients.

Grant revenue is recognized as expenses are incurred for cost reimbursement and as services are provided for fee-for-service and purchase of service contracts. Amounts earned but not received are reported as accounts receivable.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United State of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Bond Issue Costs

The costs incurred in connection with the issuance of long-term debt are being amortized over the term of the related indebtedness. They are presented as non-current assets.

Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors' report.

NOTE 2 - PROPERTY & EQUIPMENT

Property and equipment held at June 30, 2012 are summarized as follows:

Buildings	\$	13,978,869
Leasehold improvements		47,830
Office equipment		1,061,169
Equipment		508,374
Total depreciable property and equipment		15,596,242
Less accumulated depreciation		(3,070,144)
Total depreciable property and equipment, net		12,526,098
Land		4,386,045
Total land and depreciable property and equipment - net		\$ 16,912,143

Depreciation expense totaled \$531,441 for the year ended June 30, 2012.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 2 - PROPERTY & EQUIPMENT (CONTINUED)

Various pieces of equipment are used in operations but not recorded on the statement of financial condition because title is held by the grantor agency. The Organization retains custody and control of the assets during the contract period, after which time they will be returned to the Grantor agency.

Buildings and land with a carrying value of \$16,224,330 are being used as collateral for the 2005A Series Madison County, Florida First Mortgage Revenue Bonds and the 2008 Liberty County, Florida Subordinate Revenue Bonds.

NOTE 3 - LONG TERM DEBT

Bonds and notes payable at June 30, 2012 are summarized as follows:

Madison County, Florida First Mortgage Revenue Bonds, due in annual installments of \$510,000 to \$1,440,000 from July 1, 2006 to July 1, 2025, interest at 6%, collateralized by land and buildings.	\$ 14,154,988
Liberty County, Florida Taxable Subordinate Revenue Bonds, Series 2008, due in annual installments of \$135,000 to \$565,000 from July 1, 2009 to July 1, 2028, interest at 8.25%, collateralized by land and buildings.	5,514,955
Prime Meridian, line of credit due October 8, 2011, interest at 5%, collateralized by life insurance.	649,676
Prime Meridian, due in monthly (P&I) installments of \$14,984 from June 17, 2011 to June 30, 2016, interest at 7%, collateralized by buildings and equipment.	624,507
Woodville Properties, Inc., due in monthly (P&I) installments of \$1,312 from February 1, 2010 to December 1, 2025, interest at 6%, collateralized by land.	138,907
Centennial Bank, due in monthly installments of \$830 from December 1, 2010 to July 1, 2012, interest at 8%, collateralized by equipment.	3,320
Liberty Wilderness Crossroads Camp, Inc., subordinated and unsecured note due in monthly installments of \$7,254, from July 1, 2010 to July 1, 2015, interest at 5%, see Note 4 – Related Parties.	242,037
Liberty Wilderness Land Development, Inc., subordinated and unsecured note due in monthly installments of \$7,510 from July 1, 2010 to July 1, 2015, interest at 5%, see Note 4 – Related Parties	250,563
Total	21,578,953
Less current portion	(20,626,611)
Total – non-current portion	\$ 952,342

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 3 - LONG TERM DEBT (CONTINUED)

Current portion on long-term debt are presented as the following on the statement of financial position:

Current portion of bonds payable	\$ 19,669,943
Current portion of notes payable	956,668
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Total current portion of long-term debt	\$ 20,626,611

Principal payments are due over the next five years as follows:

Years ending June 30,	
2013	\$ 20,626,611
2014	322,391
2015	342,299
2016	182,184
2017	9,687
Thereafter	95,781
<hr/>	
Total	\$ 21,578,953

Interest expense for bonds payable, notes payable and capital leases was \$1,449,970 for the year ended June 30, 2012.

The various bond agreements contain certain covenants and restrictions with which Twin Oaks Juvenile Development, Inc. must comply including mandatory bond redemption, meeting a minimum annual debt service coverage ratio, maintaining a minimum level of days cash on hand, maintaining reserve and sinking fund accounts, and certain other reporting requirements. As of June 30, 2012, the Organization has not complied with certain covenants and as such, is considered to be in default by the Bank of New York Trust Company. As such, the bonds are callable and presented in the current portion of long term debt.

At June 30, 2012, the Organization had no additional funds available on the line of credit with Prime Meridian Bank, collateralized by personal life insurance policies of the Chief Executive Officer and the Chief Financial Officer to be drawn upon as needed with an interest rate at 6% at June 30, 2012.

NOTE 4 - RELATED PARTIES

Both Liberty Wilderness Crossroads Camp, Inc. and Liberty Wilderness Land & Development, Inc. are related parties, due to common board members, to Twin Oaks Juvenile Development, Inc. Payables accrued to those entities are in the normal course of business. The amount owed is comprised of \$492,600 for notes payables, of which there are formal notes including interest at 5% with 60 monthly payments starting July 1, 2010 and \$129,422 included in accounts payable.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 4 - RELATED PARTIES (CONTINUED)

The Organization leases vehicles and software from Liberty Wilderness Crossroads Camp, Inc. which is controlled by the Organization's officers. The vehicle leases are accounted for as operating leases and total \$471,782 for fiscal 2012. The software lease amounted to \$110,739 for fiscal 2012.

A line of credit with Prime Meridian is collateralized by personal life insurance policies on the lives of Chief Executive Officer and Chief Financial Officer. The outstanding balance on this line of credit at June 30, 2012 is \$649,676.

There are employees of the Organization who are relatives of management. The Chief Financial Officer's wife and daughter are employees within the Organization's education department. The Executive Director's wife is a certified teacher within the Organization's education department. The Executive Director and Chief Financial Officer's brother is the Human Resource Officer. Management asserts these salaries are within salary guidelines for their respective positions.

NOTE 5 - OPERATING AND CAPITAL LEASES

The Organization is the lessee for certain leases for equipment under operating and capital leases. All other leases are month to month. See Note 4 for related party information. The minimum future lease payments for operating leases are as follows for the years ending June 30:

2013	\$	80,076
2014		70,188
2015		60,000
2016		25,000
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<u>Total minimum future operating lease payments</u>	<u>\$</u>	<u>235,264</u>

Rental expense for property and equipment for the year ended June 30, 2012 was \$550,288.

The Organization is lessee of equipment, with a net value of \$504,936 under capital leases expiring in 2017. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments plus mandatory buy-back options. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense.

The Organization was involved in a sale leaseback agreement, which transferred all of the Organization's rights, titles and agreement to the lessor. The agreement involved the sale of \$87,432 in equipment to the lessor. The equipment was leased back to the Organization for 36 months. The minimum future lease payments are included in the schedule of capital leases below.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 5 - OPERATING AND CAPITAL LEASES (CONTINUED)

Minimum future lease payments under capital leases as of June 30, 2012 and for each year until expiration are:

2013	\$	211,254
2014		112,539
2015		62,125
2016		62,125
2017		37,109
Total minimum future lease payments		485,152
Less: Amount representing interest		(62,112)
Present value of net minimum lease payments		\$ 423,040

Interest expense for capital leases was \$29,015 for the year ended June 30, 2012.

NOTE 6 - INCOME TAXES

The Organization is a not-for-profit Florida corporation that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (iv). No provision for income taxes has been recorded. As of June 30, 2012, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns filed after July 1, 2009 are open to inspection by the Internal Revenue Service.

NOTE 7 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash deposits and money market funds. Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Twin Oaks Juvenile Development, Inc.'s bank balances exceeded the \$250,000 limit by \$639,864 at June 30, 2012. Twin Oaks Juvenile Development, Inc.'s money market funds of \$3,055,913 which are included in restricted cash and cash equivalents, are not insured.

The majority of the Organization's funding comes from government contracts described more fully in Note 1. Twin Oaks Juvenile Development, Inc. is dependent on these funds to carry out its program activities. The majority of the Organization's accounts receivable is from government contracts and Medicaid.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 8 - RETIREMENT PLAN

The Organization sponsors a 401(k) retirement plan. All employees of the Organization who have completed one year of service and have attained the age of 18 are eligible in the plan. Participants can elect to defer a portion of their compensation for the year, not to exceed the limit set forth in the Internal Revenue Code. For 2012, the Organization contributed a 25% match for employee salary deferrals. The balance in each participant's elective account shall be fully vested at all times. Retirement expense was \$28,194 for the year ended June 30, 2012.

NOTE 9 - RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents with a carrying value of \$3,055,913 are used to fulfill requirements for the Organization's 2005A Series Madison County, Florida First Mortgage Revenue Bonds and the 2008 Liberty County, Florida Subordinate Revenue Bonds. They are comprised of various sinking and reserve funds as required by the Bond Resolution. They are invested in money market funds and are carried at their fair market value. The sinking funds are presented as current assets and the reserve funds are presented as non-current assets. See Note 7 for the concentration of credit risk associated with these funds.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to year end, the Department of Education renewed the 21st Century Grant for Liberty County.

Subsequent to year end, the Organization contracted with Madison County School Board to provide services for their Alternative School in the County.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Organization received Federal and State Grants for services that are subject to review and audit by Federal and State Agencies. Such audits could result in the request for reimbursement by the Federal and State Agencies for amounts disallowed under the terms and conditions of the appropriate agency. In the opinion of the management of Twin Oaks Juvenile Development, Inc., such disallowances, if any, will not be significant to the Organization's financial statements.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization has financed commercial liability insurance under a premium financing agreement. Under the terms of the agreement, the Organization has committed to make monthly payments of \$26,051 until January of 2013 in exchange for insurance coverage through that date. The total annual premium is approximately \$310,307. Prepaid expense associated with agreement totaled \$7,310 at June 30, 2012.

The Organization has not met its obligations under the bond covenants, has suffered current year and prior year losses, and negative equity. Management has made efforts to reduce costs and has budgeted for a profitable 2013. Based on financial result through August 31, 2012, Management believes the upcoming year will be profitable. Additionally Management believes it is unlikely the lender will take action to cure default through foreclosure and it is reasonable to expect them to grant interest rate concessions and continue to work with the Organization.

Supplementary Information

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2012

		LWCC/JUST DJJ Residential Level 6	DOVE IMH DJJ Residential Level 6	DOVE DJJ Residential Level 6	TOVA DJJ Residential Level 6	RAMC DJJ Residential Level 6
Revenues	Total					
State of Florida DJJ	\$ 11,325,057	\$ 2,067,244	\$ 985,778	\$ 2,020,288	\$ 3,726,588	\$ 2,525,159
State of Florida DCF	6,219,029	-	-	-	-	-
State of Florida DOT	618,046	-	-	-	-	-
State of Florida DOE	822,144	-	-	-	-	-
Board of Education	1,537,635	-	-	-	-	-
U S Government	150,723	-	-	-	-	-
Medicaid	1,346,289	-	-	-	-	-
NSLP	413,710	55,167	21,504	46,601	160,659	67,704
Boys & Girls Club	94,916	-	-	-	-	-
Vocational Donations	9,003	-	-	-	200	-
Interest Income	369	-	-	-	-	-
Total Revenue	22,536,921	2,122,411	1,007,282	2,066,889	3,887,447	2,592,863
Operating Expenses						
Academic Supplies	67,208	-	-	-	-	-
Contractual Services	73,636	6,002	1,364	5,415	20,861	14,370
Equipment	63,425	-	-	-	2,039	1,405
Facility Supplies	119,168	13,458	9,451	15,470	13,784	9,188
Insurance	466,402	43,452	19,460	49,556	65,125	51,015
Occupancy:						
Depreciation and Amortization	579,431	28,670	36,007	80,453	147,496	101,289
Bond Interest	1,253,153	92,600	81,698	167,844	100,569	90,482
Office/Postage	194,194	16,859	10,171	20,984	30,483	20,010
Professional Fees	1,163,263	38,390	59,509	60,745	83,174	52,386
Rent	19,536	-	-	-	-	-
Repairs & Maintenance	248,254	43,923	12,249	30,561	37,827	26,229
Salaries	13,845,169	1,227,843	699,032	1,303,559	2,371,560	1,529,168
Student Clothing, Dorm, Food	1,387,857	156,339	70,081	144,534	435,137	183,476
Telephone & Utilities	651,996	60,788	32,294	69,816	167,445	111,380
Training	9,768	846	1,026	2,128	166	1,721
Travel	179,947	1,832	2,627	3,131	3,469	2,740
Transportation	446,387	75,989	18,097	45,941	46,503	32,247
Vocational Supplies	90,978	-	-	3,718	4,732	2,331
Total Operating Expenses	20,859,772	1,806,991	1,053,066	2,003,855	3,530,370	2,229,437
Overhead Allocatior						
Overhead Cost Allocation	2,000,409	189,879	110,641	210,787	371,175	234,542
Total Overhead Allocation	2,000,409	189,879	110,641	210,787	371,175	234,542
Total Other Expenses	76,207	-	-	-	-	-
Total Expenses	22,936,388	1,996,870	1,163,707	2,214,642	3,901,545	2,463,979
Change in Net Assets	\$ (399,467)	\$ 125,541	\$ (156,425)	\$ (147,753)	\$ (14,098)	\$ 128,884

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2012

	LCSB	JCSB	MCSB	AFYC DCF Residential Level III	TOFOS DCF Outpatient	DOT
Revenues						
State of Florida DJJ	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State of Florida DCF	-	-	-	4,355,607	1,863,422	-
State of Florida DOT	-	-	-	-	-	618,046
State of Florida DOE	-	-	-	-	-	-
Board of Education	637,408	212,397	687,830	-	-	-
U S Government	-	-	-	-	-	-
Medicaid	-	-	-	-	-	-
NSLP	-	-	-	62,075	-	-
Boys & Girls Club	-	-	-	-	-	-
Vocational Donations	-	-	-	-	-	-
Interest Income	-	-	-	-	-	-
Total Revenue	637,408	212,397	687,830	4,417,682	1,863,422	618,046
Operating Expenses						
Academic Supplies	6,462	3,344	43,107	-	-	-
Contractual Services-Safety	379	615	4,202	12,235	-	-
Equipment	-	-	-	59,301	-	-
Facility Supplies	1,741	1,328	5,120	26,888	5,114	-
Insurance	10,391	6,927	13,660	76,345	29,926	71,747
Occupancy:						
Depreciation and Amortization	856	571	-	105,831	4,780	856
Bond Interest	-	-	-	592,119	-	-
Office/Postage	6,291	5,079	11,279	19,101	26,765	-
Professional Fees	14,744	4,813	7,383	145,690	634,276	-
Rent	-	-	-	-	19,536	-
Repairs & Maintenance	8,292	8,534	28,555	34,319	-	-
Salaries	624,550	188,996	599,350	2,502,249	566,706	239,696
Student Clothing,Dorm, Food	-	-	-	200,712	-	170,922
Telephone & Utilities	4,186	7,654	2,563	72,543	47,389	3,389
Training	173	-	33	3,296	-	-
Travel	721	989	1,127	2,681	108,586	-
Transportation	1,063	724	4,057	64,569	-	85,302
Vocational Supplies	14,644	-	-	-	-	65,553
Total Operating Expenses	694,493	229,574	720,436	3,917,879	1,443,078	637,465
Overhead Allocatior						
Overhead Cost Allocation	73,026	24,175	-	412,141	151,871	67,038
Total Overhead Allocation	73,026	24,175	-	412,141	151,871	67,038
Total Other Expenses	-	-	-	59,571	-	-
Total Expenses	767,519	253,749	720,436	4,389,591	1,594,949	704,503
Change in Net Assets	\$ (130,111)	\$ (41,352)	\$ (32,606)	\$ 28,091	\$ 268,473	\$ (86,457)

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2012

	Connections	21st Century Madison	Boys & Girls Club	21st Century Liberty	DOVE BHOS	TOVA BHOS	Admin
Revenues							
State of Florida DJJ	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State of Florida DCF	-	-	-	-	-	-	-
State of Florida DOT	-	-	-	-	-	-	-
State of Florida DOE	-	542,856	-	279,288	-	-	-
Board of Education	-	-	-	-	-	-	-
U S Government	150,723	-	-	-	-	-	-
Medicaid	-	-	-	-	323,810	1,022,479	-
NSLP	-	-	-	-	-	-	-
Boys & Girls Club	-	-	94,916	-	-	-	-
Vocational Donations	-	-	3,228	-	-	-	5,575
Interest Income	-	-	-	-	-	-	369
Total Revenue	150,723	542,856	98,144	279,288	323,810	1,022,479	5,944
Operating Expenses							
Academic Supplies	-	5,198	-	9,097	-	-	-
Contractual Services-Safety	-	-	-	-	1,239	6,954	-
Equipment	-	-	-	-	-	680	-
Facility Supplies	-	4,431	-	5,971	3,386	3,838	-
Insurance	3,019	-	-	-	8,774	17,005	-
Occupancy:							
Depreciation and Amortization	-	-	5,172	-	20,103	47,347	-
Bond Interest	-	-	-	-	48,888	78,953	-
Office/Postage	2,951	-	8,299	-	6,372	9,550	-
Professional Fees	-	31,500	-	-	11,737	18,916	-
Rent	-	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	5,197	12,568	-
Salaries	113,355	565,903	69,711	300,191	298,330	644,970	-
Student Clothing,Dorm, Food	-	-	26,656	-	-	-	-
Telephone & Utilities	2,330	-	2,180	-	15,161	52,878	-
Training	-	-	-	-	324	55	-
Travel	23,790	2,072	22,470	1,877	689	1,146	-
Transportation	-	46,292	-	-	10,537	15,066	-
Vocational Supplies	-	-	-	-	-	-	-
Total Operating Expenses	145,445	655,396	134,488	317,136	430,737	909,926	-
Overhead Allocation							
Overhead Cost Allocation	-	-	14,121	-	45,297	95,716	-
Total Overhead Allocation	-	-	14,121	-	45,297	95,716	-
Total Other Expenses	-	-	-	-	-	-	16,636
Total Expenses	145,445	655,396	148,609	317,136	476,034	1,005,642	16,636
Change in Net Assets	\$ 5,278	\$ (112,540)	\$ (50,465)	\$ (37,848)	\$ (152,224)	\$ 16,837	\$ (10,692)

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
FEDERAL AWARDS			
U.S. Department of Justice Passed through the Florida Department of Juvenile Justice Developing, Testing and Demonstrating Promising New Programs	16.541	Various	\$ 62,854
U.S. Department of Education Passed through the Florida Department of Education Twenty-First Century Community Learning Centers	84.287	403-244A-OPCC1	822,144
U.S. Department of Agriculture Passed through Florida Department of Education National School Lunch Program	10.555	01-0356	413,710
Passed through Florida Department of Health Child and Adult Care Food Program	10.558	A-3534	32,062
U.S. Department of Labor Passed through Chipola Regional Workforce Board WIA Youth Activities	17.258	N/A	145,445
Total expenditures of federal awards			1,476,215
STATE FINANCIAL ASSISTANCE			
Florida Department of Children and Families Children's Mental Health Juvenile Restoration Juvenile Residential Level III (AFYC) Community Restoration Services	60.049	LH882 LH990	4,327,516 1,594,949
Florida Department of Juvenile Justice Delinquency Non-Secure Residential Services Juvenile Residential Level 6 (LWCC/JUST) Greenville Hills - South Greenville Hills - North Dove - IMH	80.016	B8D03 R2058 B8D04 R2086	1,941,708 3,726,588 2,396,275 985,778
Vocational Training Services Juvenile Residential Level 7 (DOVE)	80.013	L8G02	2,020,288
Total expenditures of state financial assistance			16,993,102
Total expenditures of federal awards and state financial assistance			\$ 18,469,317

See Independent Auditors' Report and Note to Schedule of Expenditures of Federal Awards and State Financial Assistance

Twin Oaks Juvenile Development, Inc.
Note to Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance include the grant activity of Twin Oaks Juvenile Development, Inc. and are presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Florida Single Audit Act. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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MANAGEMENT LETTER

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Bristol, Florida

We have audited the financial statements of the Twin Oaks Juvenile Development, Inc., Florida, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 25, 2012.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Compliance and Internal Control over Financial Reporting, Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 25, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements or State project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or likely to have occurred, and (2) deficiencies in internal control that are that are not significant deficiencies. Our audit revealed the following matter to be disclosed:

Deficit in Net Assets

The Organization had a deficit in ending net assets at June 30, 2012.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

October 25, 2012



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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**

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Bristol, Florida

We have audited the financial statements of Twin Oaks Juvenile Development, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. 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 Twin Oaks Juvenile Development Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Twin Oaks Juvenile Development, Inc.'s internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Twin Oaks Juvenile Development Inc.'s internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Oaks Juvenile Development, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-01, 2012-01, 2012-02 and 2012-03.

We noted certain matters that we reported to management of Twin Oaks Juvenile Development, Inc. in a separate letter dated October 25, 2012.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carly Riggs & Ingram, L.L.C.

October 25, 2012



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**INTERNAL AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND
CHAPTER 10.650 RULES OF AUDITOR GENERAL**

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Bristol, Florida

Compliance

We have audited the Twin Oaks Juvenile Development, Inc.'s compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the Department of Financial Services' State Projects Compliance Supplement, that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2012. Twin Oaks Juvenile Development, Inc.'s major federal awards and state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal awards and state projects is the responsibility of the Twin Oaks Juvenile Development, Inc.'s management. Our responsibility is to express an opinion on the Twin Oaks Juvenile Development, Inc.'s compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about Twin Oaks Juvenile Development, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Twin Oaks Juvenile Development, Inc.'s compliance with those requirements.

In our opinion, Twin Oaks Juvenile Development, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect each of its major federal programs and state projects for the year ended June 30, 2012.

To the Board of Directors
Twin Oaks Juvenile Development, Inc.
Page Two

Internal Control Over Compliance

The management of Twin Oaks Juvenile Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered Twin Oaks Juvenile Development, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program and state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Twin Oaks Juvenile Development, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected or corrected on a timely basis.

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

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

Carly Riggs & Ingram, L.L.C.

October 25, 2012

Twin Oaks Juvenile Development, Inc. Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Section I - Summary of Audit Results

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Twin Oaks Juvenile Development, Inc.
2. No significant deficiencies are reported in the 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*.
3. An instance of noncompliance material to the financial statements of Twin Oaks Juvenile Development, Inc. was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards or state projects are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General.
5. The Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 of the Rules of the Auditor General of Twin Oaks Juvenile Development, Inc. expresses an unqualified opinion.
6. Our audit disclosed no findings required to be reported related to Federal programs under section 501(a) of OMB Circular A-133, or did our audit disclose any findings related to State projects required to be disclosed under Chapter 10.650.
7. The federal awards and state programs tested as a major program or project includes:

<u>Federal Awards</u>	<u>Federal CFDA No.</u>
US Department of Agriculture National School Lunch Program	10.555
US Department of Education Twenty-First Century Community Learning Centers	84.287
<u>State Projects</u>	<u>State CSFA No.</u>
Department of Children & Families Children's Mental Health Juvenile Restoration	60.049
Department of Juvenile Justice Delinquency Non-secure Residential Services	80.016
Department of Juvenile Justice Vocational Training Services	80.013
8. The threshold for distinguishing Type A and B projects was \$300,000 for federal programs and \$509,793 for state projects.
9. Twin Oaks Juvenile Development, Inc. was determined to be a low-risk auditee.

**Twin Oaks Juvenile Development, Inc.
Schedule of Findings and Questioned Costs (Continued)**

Year ended June 30, 2012

Section II - Financial Statement Findings

Days Cash on Hand – Finding 2012-01

COMMENT: The Organization did not meet the days cash on hand requirements of the Madison County, Florida First Mortgage Bonds, Series 2005A and the 2008 Liberty County, Florida Subordinate Revenue Bonds.

RECOMMENDATION: We recommend the Organization implement business practices to bring the Organization into compliance with the days cash on hand requirements.

Repair and Replacement Fund – Finding 2012-02

COMMENT: The Organization did not meet the repair and replacement fund deposit requirement of the Madison County, Florida First Mortgage Bonds, Series 2005A.

RECOMMENDATION: We recommend the Organization implement business practices to bring the Organization into compliance with the repair and replacement fund deposit requirements.

Sinking Fund Requirements – Finding 2012-03

COMMENT: The Organization did not meet the principal and interest sinking fund deposit requirements of the Madison County, Florida First Mortgage Bonds, Series 2005A and the 2008 Liberty County, Florida Subordinate Revenue Bonds.

RECOMMENDATION: We recommend the Organization implement business practices to bring the Organization into compliance with the principal and interest sinking fund deposit requirements.

Section III - State Award Findings and Questioned Costs

No current year findings.

Section IV - Federal Award Findings and Questioned Costs

No current year findings.

**Twin Oaks Juvenile Development, Inc
Summary Schedule of Prior Audit Findings**

Year ended June 30, 2012

PRIOR-YEAR AUDIT FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

Debt Service Coverage Ratio – Finding 2011-01

COMMENT: The Organization did not meet the debt service coverage ratio requirements of its Madison County, Florida First Mortgage Bonds, Series 2005A and the 2008 Liberty County, Florida Subordinate Revenue Bonds.

RECOMMENDATION: We recommend the Organization implement business practices to bring the Organization into compliance with its debt service coverage ratio requirements.

STATUS: This finding continues to exist.

MAJOR FEDERAL PROGRAMS AND STATE PROJECTS

No prior year findings.



October 25, 2012

Carr, Riggs and Ingram, LLC
Tony Pumphrey
4267 Lafayette Street
Marianna, FL 32447

RE: Response to Findings of 2012 Audit

Tony,

Please use this letter as our response to finding 2012-01, 2012-02, 2012-03 and prior year finding 2011-01. Due to Program freezes and eventual closure of our DOVE IMH facility, Twin Oaks struggled to overcome the loss of income and extra-ordinary expenses that were incurred from October 2011 through January 2012. A decision was made to keep payroll and all vendors' current, but to delay payment on the bond issues. This allowed us to stay operating but created the findings from 2012 and continued the finding from 2011.

Working with the third party consultant, Twin Oaks closed the Dove IMH program, aggressively cut staff and expenses at all Programs and cut Corporate overhead for the rest of 2012. We started making the bond payments in April and plan to continue uninterrupted. We believe that the fruits of that labor began showing in June 2012 and have continued into the 2012-2013 financial year with good net income for July and August. It is our goal to continue to find efficiencies in all areas of our operations and hope to meet our budgeted income of over \$800,000 for the year.

We have worked closely with The Bond Trustee and our majority bondholder to begin paying back the reserve funds that were tapped to pay the July bond redemptions. Recently, we have agreed to subcontract the services of a nationally recognized consultant to determine if our plan is adequate and make suggestions for business practices that will hopefully restore all the findings to full compliance.

Please let me know if I can be of any assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Benjie Read", written over a horizontal line.

Benjie Read
CFO