

**Twin Oaks Juvenile
Development, Inc.**

Audited Financial Statements

June 30, 2013

Twin Oaks Juvenile Development, Inc.
Table of Contents
June 30, 2013

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-15
SUPPLEMENTARY INFORMATION	
Schedule of Revenue and Functional Expenses	16-19
Schedule of Expenditures of Federal Awards and State Financial Assistance	20
Note to Schedule of Expenditures of Federal Awards and State Financial Assistance	21
Independent Auditors' Management Letter	22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	23-24
Independent Auditors' Report on Compliance for Each Major Federal Program and State Project and on Internal Control Over Compliance Required by OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General	25-26
Schedule of Findings and Questioned Costs	27-28
Summary Schedule of Prior Audit Findings	29-30
Management's Response	31



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Twin Oaks Juvenile Development, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, 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.

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

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 13 to the financial statements, the Organization has experienced losses in 2013, 2012 and 2011 and had deficit net assets for the years ended June 30, 2013 and 2012. As discussed in Note 13 to the financial statements, as of June 30, 2013, the Organization was in default under certain covenants revolving around debt agreements. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Florida State Single Audit Act, and the Schedule of Revenue and Functional Expenses are presented for the purposes of additional analysis and is not a required part of the financial statements of the Organization. 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 generally 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Twin Oaks Juvenile Development, Inc.'s internal control over financial reporting and on 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* in considering the Organization's internal control over financial reporting and compliance.

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

November 4, 2013

Twin Oaks Juvenile Development, Inc.
Statement of Financial Position

June 30, 2013

Assets

Current assets

Cash and cash equivalents	\$ 434,104
Restricted cash and cash equivalents	893,960
Accounts receivable	1,611,395
Prepaid expenses	122,213

Total current assets 3,061,672

Non-current assets

Restricted cash and cash equivalents	1,569,976
Deferred charges - bonds	889,710
Property and equipment - net	16,419,327

Total non-current assets 18,879,013

Total assets \$ 21,940,685

Liabilities and net assets (deficit)

Current liabilities

Accounts payable and accrued expenses	\$ 796,786
Accrued payroll liabilities	1,085,346
Accrued interest	622,336
Current portion of capital lease obligation	95,962
Current portion notes payable - related party	160,141
Current portion of notes payable	975,449

Total current liabilities 3,736,020

Non-current liabilities

Bonds payable, less current portion	18,835,000
Capital lease obligation, less current portion	142,350
Notes payable, related party	253,069
Notes payable, less current portion	456,139

Total non-current liabilities 19,686,558

Total liabilities 23,422,578

Net assets (deficit)

Unrestricted	(3,945,829)
Restricted for bond reserves and sinking funds	2,463,936

Total net assets (deficit) (1,481,893)

Total liabilities and net assets (deficit) \$ 21,940,685

See accompanying notes to financial statements.

Twin Oaks Juvenile Development, Inc.
Statement of Activities

Year ended June 30, 2013

Revenue and other support

Program service fees	\$ 17,077,728
Education - FTE	1,468,985
Medicaid	1,358,949
National school lunch program	366,146
Miscellaneous	34,782

Total revenue and other support 20,306,590

Expenses

Program services	19,611,514
Management and general	1,732,014
Other expenses	16,662

Total expenses 21,360,190

Change in unrestricted net assets (1,053,600)

Beginning net assets (deficit) (428,293)

Ending net assets (deficit) \$ (1,481,893)

See accompanying notes to financial statements.

Twin Oaks Juvenile Development, Inc.
Statement of Cash Flows

Year ended June 30, 2013

Operating activities	
Change in unrestricted net assets	\$ (1,053,600)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Loss on disposition of assets	58
Depreciation	527,309
Amortization	69,001
(Increase) decrease in assets:	
Accounts receivable	657,673
Prepaid expenses	(61,537)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(69,722)
Accrued payroll liabilities	(32,451)
Accrued interest	(29,972)
Net cash provided by operating activities	6,759
Investing activities	
Purchase of property and equipment	(34,493)
Net cash used in investing activities	(34,493)
Financing activities	
Change in restricted cash - noncurrent	640,173
Proceeds from borrowings and line of credit	1,933,843
Principal and line of credit repayments	(3,017,783)
Net cash used in financing activities	(443,767)
Net change in cash and cash equivalents	(471,501)
Beginning cash and cash equivalents	1,799,565
Ending cash and cash equivalents	\$ 1,328,064
Ending cash and cash equivalents are presented on the statement of financial position as:	
Cash and cash equivalents	\$ 434,104
Restricted cash and cash equivalents (current)	893,960
Total cash and cash equivalents	\$ 1,328,064
Supplemental cash flow information:	
Cash paid for interest	\$ 1,423,264

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, 2013; 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 States 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, 2013 are summarized as follows:

Buildings	\$	13,988,996
Leasehold improvements		47,830
Office equipment		1,063,746
Equipment		530,163
Total depreciable property and equipment		15,630,735
Less accumulated depreciation		(3,597,453)
Total depreciable property and equipment, net		12,033,282
Land		4,386,045
Total land and depreciable property and equipment - net	\$	16,419,327

Depreciation expense totaled \$527,309 for the year ended June 30, 2013.

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, 2013 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.	\$ 13,480,000
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.	5,355,000
Prime Meridian, line of credit due October 8, 2011, interest at 6%, collateralized by life insurance. See Note 4 – Related Parties for information regarding personal guarantees of this note.	800,000
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. See Note 4 – Related Parties for information regarding personal guarantees of this note.	483,184
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.	131,282
Centennial Bank, due in monthly installments of \$1,381 from September 1, 2012 to August 5, 2014, interest at 8%, collateralized by vehicles owned by a related party. See Note 4 – Related Parties for information regarding personal guarantees of this note.	17,122
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

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 3 - LONG TERM DEBT (CONTINUED)

Liberty Wilderness Land Development, Inc., subordinated and unsecured note due in monthly principal and interest installments of \$7,510 from July 1, 2010 to July 1, 2015, interest at 5%, see Note 4 – Related Parties 171,173

Total	20,679,798
Less current portion	(1,135,590)

Total – non-current portion	\$ 19,544,208
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Current portion on long-term debt are presented as the following on the statement of financial position:

Current portion of notes payable – related parties	\$ 160,141
Current portion of notes payable	975,449

Total current portion of long-term debt	\$ 1,135,590
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Principal payments are due over the next five years as follows:

Years ending June 30,	
2014	\$ 1,135,590
2015	338,175
2016	1,155,565
2017	949,687
2018	1,015,285
Thereafter	16,085,496
Total	\$ 20,679,798

Interest expense for bonds payable, notes payable and capital leases was \$1,393,292 for the year ended June 30, 2013.

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, funding its repair and replacement fund and certain other reporting requirements. As of June 30, 2013, 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.

At June 30, 2013, 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 of 6% at June 30, 2013.

Twin Oaks Juvenile Development, Inc. Notes to Financial Statements

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 \$413,210 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.

The Organization leases vehicles and vehicle insurance 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 \$414,424 for fiscal 2013. The vehicle insurance amounted to \$110,739 for fiscal 2013.

The note with Centennial Bank, the note with Prime Meridian and the line of credit with Prime Meridian are personally guaranteed by the Chief Executive Officer and the Chief Financial Officer.

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, 2013 is \$800,000.

There are employees of the Organization who are relatives of management. The Chief Financial Officer's wife, daughter and son 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 are brothers and their brother is a contract manager. Management asserts these salaries are within salary guidelines for their respective positions.

Loans totaling \$250,000 were advanced from and repaid by officers of the Organization during the year for cash flow purposes.

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:

2014	\$	80,076
2015		70,188
2016		60,000
2017		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, 2013 was \$456,920.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 5 - OPERATING AND CAPITAL LEASES (CONTINUED)

The Organization is lessee of equipment, with a net value of \$504,936 under capital leases expiring in 2018. 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.

Minimum future lease payments under capital leases as of June 30, 2013 and for each year until expiration are:

2014	\$	211,254
2015		112,539
2016		62,125
2017		62,125
2018		37,109
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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, 2013.

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, 2013, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns filed after July 1, 2010 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 \$225,670 at June 30, 2013. Twin Oaks Juvenile Development, Inc.'s money market funds of \$2,463,936 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 2013, 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 \$34,513 for the year ended June 30, 2013.

NOTE 9 - RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents with a carrying value of \$2,463,936 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 Organization signed a forbearance agreement with Bank of New York Mellon Trust Company. See Note 12.

Subsequent to year end, the Organization entered into a promissory note agreement with Liberty Wilderness Crossroads Camp, Inc. in the amount of \$1,350,000 to pay off a note with Prime Meridian Bank and to pay off the line of credit with Prime Meridian Bank. The terms include interest for the first 12 months at 8%. Liberty Wilderness Crossroads Camp, Inc. is a related party due to common board members.

Subsequent to year end, the Organization entered into a promissory note agreement with Liberty Wilderness Crossroads Camp, Inc. in the amount of \$472,069. The terms include 36 monthly payments of \$14,793 beginning September 25, 2013 including interest at the rate of 8%. Liberty Wilderness Crossroads Camp, Inc. is a related party due to common board members.

Subsequent to year end, the Organization entered into a lease for vehicles with Liberty Wilderness Crossroads Camp, Inc., a related party due to common board members.

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 2014 in exchange for insurance coverage through that date. The total annual premium is approximately \$310,307. Prepaid expense associated with agreement totaled \$71,464 at June 30, 2013.

The Organization has not met its obligations under the bond covenants, suffered current and prior year losses, and has negative equity as discussed in Note 13.

During a monitoring visit from the Florida Department of Children and Families, it was noted that the Organization experienced some compliance issues as it relates to the grant agreement and program requirements.

During a monitoring visit from the Florida Department of Juvenile Justice, it was noted on a Quality Improvement Report that the Organization had certain contract requirements with which it did not comply. The Organization has submitted a corrective action plan and is waiting for a response from the Department.

NOTE 12 – FORBEARANCE AGREEMENT

Subsequent to year end, the Twin Oaks Juvenile Development, Inc. (Organization and Borrower) entered into a forbearance agreement with the Bank of New York Mellon Trust Company, National Association (Trustee) pursuant to the Madison County, Florida First Mortgage Revenue Bonds, Series 2005 and the Liberty County, Florida Subordinate Revenue Bonds, Series 2008. According to the forbearance agreement, the Organization is in default on several covenants from the 2005 Loan agreement. See the Schedule of Findings and Questioned Costs and the Summary Schedule of Prior Audit Findings for the defaults.

The forbearance agreement states the Trustee forbear its rights, powers, privileges and remedies under the 2005 Loan Documents as set forth in the 2005 Loan Agreement, the Mortgage, the 2005 Indenture, the Series 2005A Bonds or any related agreement (collectively, the "Loan Documents").

The Organization agrees to:

- 1) Comply with all of the terms and conditions of the 2005 Loan Documents, except the following sections of the Loan Agreement: Section 5.02; Section 8.09(a) – to the extent it requires the Borrower to maintain a minimum Debt Service Coverage Ratio; and Section 8.09(d); provided however that the Borrower shall maintain (1) at least a minimum of five Days' Cash on Hand prior to the earlier of September 30, 2014 and the termination of the Forbearance Agreement and (2) at least a minimum of ten Days' Cash on Hand from October 1, 2014 until the termination of the Forbearance Agreement measured as of the end of each calendar month as shown by the report of actual cash receipts, disbursements and balances delivered pursuant to Section 4(j)(i) of the Forbearance Agreement.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 12 – FORBEARANCE AGREEMENT (CONTINUED)

- 2) Disclose any and all information pertaining to the Borrower's operations that would have any effect on the Trustee's Collateral and continue to perform the Borrower's obligations.
- 3) On or before October 15, 2013, retain a broker on terms reasonably acceptable to the Majority Bondholders and have such broker provide a marketing plan and broker opinion of value on or before November 15, 2013 of the excess acreage, or if feasible, the improved property to be sold, in Madison County, Florida.
- 4) Provide, within five days of the execution of the Forbearance Agreement, to Trustees, copies of all its material contracts and contact details for the entity responsible for making payment on each contract.
- 5) Appoint a Chief Restructuring Officer (CRO) with two calendar weeks of a request by the Trustee.
- 6) Retain a consultant reasonably accepted to the Majority Bondholders to prepare required reports and to review and approve calculation of the Borrower's (1) monthly expenses and variance from budget and (2) cash in excess of 110% of the project cash balance in the Cash Projection.
- 7) When requested by the Majority Bondholders, appoint an additional individual, reasonably acceptable to the Majority Bondholders, to sit on Borrower's board of directors.
- 8) Shall obtain the consent of the Majority Bondholder to (1) the annual budgets for the 2015 and 2016 fiscal years (2) any modification to the annual budgets for the 2015 and 2016 fiscal years or (3) the annual budget or the 2014 fiscal year previously delivered to the Trustee.
- 9) Conduct a monthly telephone call on or before the 20th of each month in which Borrower will describe all material developments affecting the Borrower or its business including efforts to obtain additional contracts.
- 10) On or before the 15th of each month, distribute certain reports and/or documents to the Trustee and to Bondholders who have notified the Borrower that they wish to receive these documents in a format reasonably acceptable to the Trustee and the Majority Bondholders.
- 11) Shall not make expenditures not provided for in the Budget or in excess of 110% of the amount provided for in the Budget without the consent of the Majority Bondholder.
- 12) Make a payment of at least \$115,000 to the Trustee for deposit to the Trustee for deposit in the Forbearance Account on or before the 25th day of each month commencing September 2013 to be adjusted effective July 1, 2014 as provided in this agreement for any increase and decrease in the payment required for the Repair and Replacement Fund.

Twin Oaks Juvenile Development, Inc.
Notes to Financial Statements

NOTE 12 – FORBEARANCE AGREEMENT (CONTINUED)

13) In addition to the payment required at (11), make monthly payments (the “Cash Sweep”) to the Trustee for deposit in the Forbearance Account on the last business day of each month of any cash balance in excess of 110% of (1) the project cash balance as of that date in the Cash Projection minus, without duplication (2) cash project to be received in a subsequent period.

The Borrower and Trustee hereby agree and acknowledge that the Forbearance agreement in no way modifies, amends or supplants any of the terms or conditions of the 2005 Loan Documents and the Borrower expressly acknowledges that the terms and conditions of the 2005 Loan Documents remain unchanged and continue to be in full force and effect.

The Borrower hereby agrees to pay and confirms and acknowledges that the Borrower is indebted under the 2005 Loan Agreement for the principal and accrued interest on the Series 2005A Bonds, plus all fees and expenses of the Trustee as of the date of the Forbearance Agreement or that will be incurred by the Trustee.

The Forbearance Agreement shall terminate on the earlier of (1) the Trustee’s issuance of a notice of termination (a “Termination Notice”), or (2) July 2, 2015. If no Termination Notice has been issued and no Forbearance Agreement Event of Default has occurred, this Forbearance Agreement may be extended for successive periods of ninety days at the Trustee’s sole and absolute discretion by providing written notice to the Borrower of such extension.

NOTE 13 – GOING CONCERN

As indicated in the accompanying financial statements, the Organization showed a decrease in net assets of \$1,053,600 during the year ended June 30, 2013. The Organization also showed decreases in net assets during the years ended June 30, 2012 and 2011. As of June 30, 2013, the Organization’s current liabilities exceeded its current assets by \$674,348 and its total liabilities exceeded its total assets by \$1,481,893. Those factors, as well as the uncertain conditions that the Organization faces regarding its loan agreements related to its Madison County, Florida First Mortgage Revenue Bonds, Series 2005, as discussed in Note 3, create an uncertainty about the Organization’s ability to continue as a going concern.

Management has implemented cost reductions to reduce operating expenses. Subsequent to year end, the Organization has entered into a forbearance agreement with the Bank of New York Mellon Trust Company to forbear principal payments on their Madison County, Florida First Mortgage Revenue Bonds, Series 2005 and Liberty County, Florida Subordinate Revenue Bonds, Series 2008. Subsequent to year end, the Organization also refinanced other debt in an effort to improve cash flows.

The ability of the Organization to continue as a going concern is dependent upon the success of these actions. There can be no assurance that the Organization will be successful in accomplishing its objectives. The financial statements do not include any adjustments that might be necessary should the Organization be unable to continue as a going concern.

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2013

		LWCC/JUST DJJ Residential Level 6	DOVE DJJ Residential Level 6	TOVA DJJ Residential Level 6	RAMC DJJ Residential Level 6	Project Connect DJJ Residential
Revenues	Total					
State of Florida DJJ	\$ 9,519,811	\$ 2,071,724	\$ 1,600,432	\$ 3,239,800	\$ 2,607,855	\$ -
State of Florida DCF	6,100,828	-	-	-	-	-
State of Florida DOT	639,491	-	-	-	-	-
State of Florida DOE	482,459	-	-	-	-	-
Board of Education	1,468,985	-	-	-	-	-
U S Government	301,445	-	-	-	-	-
Medicaid	1,057,505	-	-	-	-	-
NSLP	366,145	62,632	44,206	120,659	66,586	-
Boys & Girls Club	335,139	-	-	-	-	-
Vocational Donations	34,525	-	-	-	-	-
Interest Income	257	-	-	-	-	-
Miscellaneous Revenue	-	-	-	-	-	-
Total Revenue	20,306,590	2,134,356	1,644,638	3,360,459	2,674,441	-
Operating Expenses						
Academic Supplies	91,520	-	-	-	-	-
Contractual Services	36,509	4,422	4,611	8,994	7,926	-
Equipment	92,031	-	-	15,427	11,543	-
Facility Supplies	116,087	16,145	12,027	12,149	10,015	-
Insurance	429,588	49,369	40,184	51,416	47,123	1,698
Occupancy: Depreciation	576,553	22,818	115,152	138,431	124,866	-
Bond Interest	1,261,790	87,646	119,972	232,363	161,380	-
Office/Postage	199,876	19,149	19,401	23,036	21,050	1,425
Professional Fees	1,451,303	69,516	72,943	132,742	97,258	540
Rent	27,496	-	-	-	-	-
Repairs & Maintenance	208,764	22,659	16,959	28,061	25,465	15
Salaries	12,720,933	1,260,633	1,128,968	2,259,530	1,500,063	9,137
Student Clothing, Dorm, Food	1,079,748	133,330	117,959	274,202	148,029	-
Telephone & Utilities	622,137	61,945	78,230	141,063	124,876	-
Training	4,633	657	588	1,258	1,165	-
Travel	233,427	4,533	2,289	2,046	2,567	-
Transportation	354,236	76,558	31,543	48,051	42,808	-
Vocational Supplies	104,883	585	2,204	10,749	5,544	-
Total Operating Expenses	19,611,514	1,829,965	1,763,030	3,379,518	2,331,678	12,815
Overhead Allocatior						
Overhead Cost Allocation	1,732,014	179,353	172,292	331,355	228,247	1,264
Total Overhead Allocation	1,732,014	179,353	172,292	331,355	228,247	1,264
Total Other Expenses	16,662	-	-	-	-	-
Total Expenses	21,360,190	2,009,318	1,935,322	3,710,873	2,559,925	14,079
Change in Net Assets	\$ (1,053,600)	\$ 125,038	\$ (290,684)	\$ (350,414)	\$ 114,516	\$ (14,079)

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2013

Revenues	LCSB	JCSB	MCSB	AFYC DCF Residential Level III	TOFOS DCF Outpatient
State of Florida DJJ	\$ -	\$ -	\$ -	\$ -	\$ -
State of Florida DCF	-	-	-	4,096,538	2,004,290
State of Florida DOT	-	-	-	-	-
State of Florida DOE	-	-	-	-	-
Board of Education	642,756	132,086	521,505	-	-
U S Government	-	-	-	-	-
Medicaid	-	-	-	-	-
NSLP	-	-	-	55,208	-
Boys & Girls Club	-	-	-	-	-
Vocational Donations	-	-	-	-	-
Interest Income	-	-	-	-	-
Miscellaneous Revenue	-	-	-	-	-
Total Revenue	642,756	132,086	521,505	4,151,746	2,004,290
Operating Expenses					
Academic Supplies	18,864	918	68,434	-	-
Contractual Services-Safety	288	758	1,855	4,187	-
Equipment	-	-	-	60,451	-
Facility Supplies	12,540	2,443	5,182	27,998	10,400
Insurance	8,683	5,882	8,683	77,178	40,813
Depreciation	-	-	-	106,294	1,931
Occupancy	-	-	-	540,256	-
Office/Postage	4,450	6,872	13,493	33,507	31,789
Professional Fees	16,528	4,157	10,722	187,109	673,315
Rent	-	-	-	-	20,296
Repairs & Maintenance	15,719	9,983	26,999	30,876	-
Salaries	585,913	89,849	510,752	2,599,087	649,485
Student Clothing,Dorm, Food	-	-	-	172,224	-
Telephone & Utilities	4,163	12,069	6,326	79,755	48,867
Training	16	22	169	295	-
Travel	666	671	725	4,820	130,151
Transportation	1,067	2,101	5,067	64,733	-
Vocational Supplies	14,695	-	-	-	-
Total Operating Expenses	683,592	135,725	658,407	3,988,770	1,607,047
Overhead Allocatior					
Overhead Cost Allocation	65,396	12,031	-	391,305	156,943
Total Overhead Allocation	65,396	12,031	-	391,305	156,943
Total Other Expenses	-	-	-	-	-
Total Expenses	748,988	147,756	658,407	4,380,075	1,763,990
Change in Net Assets	\$ (106,232)	\$ (15,670)	\$ (136,902)	\$ (228,329)	\$ 240,300

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2013

Revenues	DOT	Connections	21st Century Madison	Boys & Girls Club	21st Century Liberty
State of Florida DJJ	\$ -	\$ -	\$ -	\$ -	\$ -
State of Florida DCF	-	-	-	-	-
State of Florida DOT	639,491	-	-	-	-
State of Florida DOE	-	-	80,273	-	402,186
Board of Education	-	-	-	-	-
U S Government	-	301,445	-	-	-
Medicaid	-	-	-	-	-
NSLP	-	-	-	-	-
Boys & Girls Club	-	-	-	335,139	-
Vocational Donations	-	-	-	3,800	-
Interest Income	-	-	-	-	-
Miscellaneous Revenue	-	-	-	-	-
Total Revenue	639,491	301,445	80,273	338,939	402,186
Operating Expenses					
Academic Supplies	-	-	-	-	-
Contractual Services-Safety	-	-	-	-	-
Equipment	-	-	-	-	-
Facility Supplies	-	-	-	-	-
Insurance	55,555	7,236	-	-	-
Depreciation	-	-	-	5,959	-
Occupancy	-	-	-	-	-
Office/Postage	-	4,109	296	5,048	-
Professional Fees	-	78,519	7,500	17,685	40,000
Rent	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	-
Salaries	224,027	211,743	65,710	287,580	368,054
Student Clothing,Dorm, Food	151,098	-	984	24,021	9,134
Telephone & Utilities	3,710	3,728	-	1,996	-
Training	-	-	-	-	-
Travel	-	54,451	-	29,069	-
Transportation	44,504	-	8,511	-	2,334
Vocational Supplies	71,106	-	-	-	-
Total Operating Expenses	550,000	359,786	83,001	371,358	419,522
Overhead Allocatior					
Overhead Cost Allocation	52,930	-	-	35,349	-
Total Overhead Allocation	52,930	-	-	35,349	-
Total Other Expenses	-	-	-	-	-
Total Expenses	602,930	359,786	83,001	406,707	419,522
Change in Net Assets	\$ 36,561	\$ (58,341)	\$ (2,728)	\$ (67,768)	\$ (17,336)

See Independent Auditors' Report

Twin Oaks Juvenile Development, Inc.
Schedule of Revenue and Functional Expenses
Year ended June 30, 2013

Revenues	DOVE BHOS	TOVA BHOS	Admin	MCSB BEAR	Transition House
State of Florida DJJ	\$ -	\$ -	\$ -	\$ -	\$ -
State of Florida DCF	-	-	-	-	-
State of Florida DOT	-	-	-	-	-
State of Florida DOE	-	-	-	-	-
Board of Education	-	-	-	172,638	-
U S Government	-	-	-	-	-
Medicaid	300,297	757,208	-	-	-
NSLP	-	-	-	16,854	-
Boys & Girls Club	-	-	-	-	-
Vocational Donations	-	-	725	-	30,000
Interest Income	-	-	257	-	-
Miscellaneous Revenue	-	-	-	-	-
Total Revenue	300,297	757,208	982	189,492	30,000
Operating Expenses					
Academic Supplies	-	-	-	3,304	-
Contractual Services-Safety	947	2,521	-	-	-
Equipment	-	3,868	-	-	742
Facility Supplies	2,297	3,036	-	1,855	-
Insurance	7,404	17,337	-	4,411	6,616
Depreciation	23,585	37,517	-	-	-
Occupancy	43,236	76,937	-	-	-
Office/Postage	3,821	7,254	-	4,666	510
Professional Fees	12,050	30,647	-	72	-
Rent	-	-	-	-	7,200
Repairs & Maintenance	3,954	7,343	-	20,731	-
Salaries	174,216	564,768	-	195,334	36,084
Student Clothing,Dorm, Food	-	-	-	47,336	1,431
Telephone & Utilities	15,136	37,724	-	1,700	849
Training	28	187	-	-	248
Travel	470	602	-	367	-
Transportation	6,470	13,483	-	5,926	1,080
Vocational Supplies	-	-	-	-	-
Total Operating Expenses	293,614	803,224	-	285,702	54,760
Overhead Allocatior					
Overhead Cost Allocation	27,702	77,847	-	-	-
Total Overhead Allocation	27,702	77,847	-	-	-
Total Other Expenses	-	-	16,662	-	-
Total Expenses	321,316	881,071	16,662	285,702	54,760
Change in Net Assets	\$ (21,019)	\$ (123,863)	\$ (15,680)	\$ (96,210)	\$ (24,760)

See Independent Auditors' Report

Supplementary Information

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

Year ended June 30, 2013

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	\$ 301,445
Passed through the Boys and Girls Club Juvenile Mentoring Program	16.726	n/a	23,606
Total U. S. Department of Justice			325,051
U.S. Department of Education			
Passed through the Florida Department of Education and Boys and Girls Club Twenty-First Century Community Learning Centers	84.287	403-244A-OPCC1	587,955
Total U. S. Department of Education			587,955
U.S. Department of Agriculture			
Passed through Florida Department of Education National School Lunch Program	10.555	01-0356	366,145
Passed through Florida Department of Health Child and Adult Care Food Program	10.558	A-3534	28,593
Total U. S. Department of Agriculture			394,738
Total expenditures of federal awards			1,307,744
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	LH233 LH234	1,763,990 4,096,538
Total Florida Department of Children and Families			5,860,528
Florida Department of Juvenile Justice			
Delinquency Non-Secure Residential Services Juvenile Residential Level 6 (LWCC/JUST) Greenville Hills - South Greenville Hills - North	80.016	R2105 R2058 R2108	1,946,686 3,239,800 2,493,339
Total Delinquency Non-Secure Residential Services			7,679,825
Vocational Training Services Juvenile Residential Level 6 (DOVE)	80.013	R2113	1,600,432
Passed through Florida Alliance of Boys and Girls Club Prevention and Victim Services	80.029	V2039	105,094
Total Florida Department of Juvenile Justice			9,385,351
Florida Department of Education			
Passed through the Florida Alliance of Boys and Girls Club Mentoring/Student Assistance Initiative	48.068	37P-96449-48001	68,684
Total Florida Department of Education			68,684
Total expenditures of state financial assistance			15,314,563
Total expenditures of federal awards and state financial assistance			\$ 16,622,307

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, 2013

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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INDEPENDENT AUDITORS' 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, 2013, and have issued our report thereon dated November 4, 2013.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. We have issued our Independent Auditors' Report and Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance For Each Major Federal Program and State Project and on Control over Compliance Required by OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 4, 2013, 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, fraud, illegal acts 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, 2013.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

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

November 4, 2013



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**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of Twin Oaks Juvenile Development, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Twin Oaks Juvenile Development Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Twin Oaks Juvenile Development Inc.'s internal control. Accordingly we do not express an opinion on the effectiveness of Twin Oaks Juvenile Development Inc.'s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-01, 2012-01, 2012-02 and 2012-03 and 2013-01.

We noted certain matters that we reported to management of Twin Oaks Juvenile Development, Inc. in a separate letter dated November 4, 2013.

Twin Oaks Juvenile Development, Inc.'s Response to Findings

Twin Oaks Juvenile Development, Inc.'s response to the findings identified in our audit is described in a separate letter provided by the Organization. Twin Oaks Juvenile Development Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

November 4, 2013



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**INTERNAL AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 AND
CHAPTER 10.650 RULES OF AUDITOR GENERAL**

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

Report on Compliance for Each Major Federal Program and State Project

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs and State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major Federal programs and State projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 noncompliance 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 the Organization'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 on compliance for each major Federal program and State project. However, our audit does not provide a legal determination of the Organization's compliance.

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

Opinion on Each Major Federal Program and State Project

In our opinion, Twin Oaks Juvenile Development, Inc. complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

The management of Twin Oaks Juvenile Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Twin Oaks Juvenile Development, Inc.'s internal control over compliance with the type of requirements that could have a direct and material effect on a major federal program and state project to determine our auditing procedures that are appropriate in the circumstances 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. A significant deficiency in internal control over compliance is a deficiency, or as combination of deficiencies, in internal control over compliance with the type of compliance requirement of a Federal program or State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses, or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Caru, Riggs & Ingram, L.L.C.

November 4, 2013

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

Year ended June 30, 2013

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 Independent Auditor's 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. Instances 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 For Each Major Federal Program and State Project and on Internal Control over Compliance Required by OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General.
5. The Independent Auditor's Report on Compliance For Each Major Program and State Project and on Internal Control over Compliance Required by 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 Justice Developing, Testing and Demonstrating Promising New Programs	16.541
<u>State Projects</u>	<u>State CSFA No.</u>
Department of Juvenile Justice Delinquency Non-Secure Residential Services	80.016
8. The threshold for distinguishing Type A and B projects was \$300,000 for federal programs and \$459,437 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, 2013

Section II - Financial Statement Findings

Debt Service Reserve Fund – Finding 2013-01

COMMENT: The Organization did not meet the debt service reserve 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 reserve 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, 2013

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.

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.

STATUS: This finding continues to exist.

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.

STATUS: This finding continues to exist.

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

Year ended June 30, 2013

PRIOR-YEAR AUDIT FINDINGS AND QUESTIONED COSTS - CONTINUED

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.

STATUS: This finding continues to exist.

MAJOR FEDERAL PROGRAMS AND STATE PROJECTS

No prior year findings.



November 6, 2013

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

Re: Response to Finding of 2013 Audit

Dear Tony,

Please use this letter as our response to the findings labeled as 2013-01, 2013-02, 2012-01, 2012-02 and 2011-01 in the recently completed 2013 audit concerning the defaults as related to our bond finance agreements from 2005 and 2008.

As you have disclosed, Twin Oaks has entered into a two year Forbearance agreement with the Trustee and the majority bond holder to enable us to meet certain guidelines and reduced payment structure that will allow us to emerge with our reserves restored and the ability to move out of default. One of these guidelines is the hiring of a consultant to help and verify the reporting requirements each month. There is still a lot of improvement to be made and we are moving away from the unstable environment of the youth residential business into what we believe will be a more stable youth aftercare and adult services business. Additional, heavy cost cutting of under-performing programs is underway and will continue until we can reach a profitable environment.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Benjie Read".

Benjie Read
CFO