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LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.

FINANCIAL STATEMENTS

06/30/06

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06/30/05

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-24-07

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**GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810**

Independent Auditor's Report

To the Board of Directors and Stockholders of
Louisiana Health & Rehabilitation Options, Inc.

We have audited the accompanying balance sheet of Louisiana Health & Rehabilitation Options, Inc. (a Louisiana corporation) as of June 30, 2006 and 2005, and the related statements of income, retained earnings, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Health & Rehabilitation Options, Inc. as of June 30, 2006 and 2005, the results of its operations and its cash flow 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 December 14, 2006 on our consideration of Louisiana Health & Rehabilitation Options, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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.

GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Louisiana Health & Rehabilitation Options, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards on page #22 is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Supplemental Schedule of Operating Income By Class on page #20 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

Louisiana Health and Rehabilitation Options, Inc.
Balance Sheet
Year Ended June 30, 2006 and June 30, 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 461,864	\$ 498,022
Accounts Receivable	275,452	289,041
Due from Client	3,115	4,126
Due from Employee	396	704
Prepaid Insurance	15,123	52,943
Prepaid State Income Tax	2,329	517
Prepaid Federal Income Tax	6,669	-
Primerica Securities-AFS	13,622	-
	<u>778,570</u>	<u>845,353</u>
Total Current Assets		
 <u>Fixed Assets</u>		
Automobile	131,653	67,033
Computer Equipment	40,136	32,682
Office Equipment	8,801	8,899
Office Furniture	41,034	41,034
Leasehold Improvements	17,055	17,055
	<u>238,679</u>	<u>166,703</u>
Fixed Assets Subtotal		
Less Accum. Depreciation	<u>(124,814)</u>	<u>(106,603)</u>
	<u>113,865</u>	<u>60,100</u>
Total Fixed Assets		
 <u>Other Assets</u>		
Deposits - Security	3,000	3,000
Due from Shareholders	51,369	34,171
	<u>54,369</u>	<u>37,171</u>
Total Other Assets		
 TOTAL ASSETS	 \$ 946,804	 \$ 942,625

Louisiana Health and Rehabilitation Options, Inc.
Balance Sheet
Year Ended June 30, 2006 and June 30, 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>LIABILITIES & EQUITY</u>		
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 30,216	\$ 15,325
Insurance Payable	9,387	89,247
Unemployment Tax Payable	9,724	9,212
SWH Tax Payable	3,676	2,919
Garnishment Payable	1,763	910
401K Retirement Payable	3,817	3,846
Accrued Payroll Tax	7,563	5,290
Accrued Wages	83,609	60,155
Due to Clients	17,764	5,382
Due to Affiliate - Harmony Cent	-	35,647
Due to LHRC, Inc.	27,301	28,824
Federal Income Tax Payable	-	8,220
N/P-Chase Bank	3,929	-
Current Maturities of Long Term Debt	-	7,600
	<u>198,749</u>	<u>272,577</u>
Total Other Current Liabilities		
	<u>198,749</u>	<u>272,577</u>
<u>Long Term Liabilities</u>		
N/P-Bank One(03 Van)	-	8,567
N/P-Hancock Bank(01 Van)	-	6,042
Current Maturities of Long Term Debt	-	(7,600)
	<u>-</u>	<u>7,009</u>
Total Long Term Liabilities		
	<u>-</u>	<u>7,009</u>
TOTAL LIABILITIES	<u>198,749</u>	<u>279,586</u>
<u>Equity</u>		
Retained Earnings	662,038	574,126
Net Income	85,017	87,912
Common Stock - No Par Value (1,000 shares authorized, 100 shares issued)	1,000	1,000
Total Equity	<u>748,055</u>	<u>663,038</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 946,804</u>	<u>\$ 942,624</u>

LA Health and Rehabilitation Options, Inc.
Statement of Income
June 30, 2006 and June 30, 2005

	<u>12 Months Ended</u> <u>June 30, 2006</u>	<u>12 Months Ended</u> <u>June 30, 2005</u>
<u>INCOME</u>		
Reimbursed Expenses	\$ 713	\$ 4,628
Program Revenue	3,698,705	2,922,786
Total Income	\$ 3,699,418	\$ 2,927,414
<u>OPERATING EXPENSES</u>		
Advertising and Promotion	3,369	2,829
Automobile Expense	5,537	1,352
Bank Service Charges	1,654	1,876
Client Cost	1,576	3,364
Conference	-	100
Contract Outside Services	55,570	22,064
Depreciation Expense	24,955	19,800
Dues and Subscriptions	694	27
Employee Benefits	106,723	80,326
Equipment Purchase	1,965	1,326
Equipment Rental	36	764
Insurance	135,723	124,122
Interest Expense	563	1,598
Licenses and Permits	1,920	2,223
Management Fees	132,000	84,000
Miscellaneous	1,803	5,350
Office Supplies	23,696	23,470
Payroll Expenses		
Wages	2,315,746	1,980,467
FICA Matching Tax	178,993	151,101
FUTA/SUTA Tax	37,478	32,259
Postage and Delivery	969	1,821
Professional Fees	63,622	45,535
Professional Development	-	294
Recreation Activities	6,402	17,195
Rent	58,671	66,447
Repairs	4,051	6,167
Supplies-Janitorial	1,794	2,584
Supplies-Other	5,914	-
Supplies-Food	44,286	35,638
Taxes-Other	1,261	2,526
Telephone	29,200	33,235
Theft Loss	1,040	-
Training	119	9,350
Mileage	49,266	39,474
Meals & Entertainment	3,826	823
Travel	707	2,741
Utilities	9,423	18,285
Total Operating Expenses	3,310,552	2,820,537

LA Health and Rehabilitation Options, Inc.
Statement of Income
June 30, 2006 and June 30, 2005

	12 Months Ended June 30, 2006	12 Months Ended June 30, 2005
INCOME FROM OPERATIONS	388,866	106,877
<u>Other Income/(Expense)</u>		
<u>Other Income</u>		
Dividend Income	235	-
Interest Income	19,324	4,588
Other Income	6,454	11,387
Total Other Income	26,013	15,955
<u>Other Expense</u>		
Penalties	(524)	-
Charitable Contributions	(100)	(270)
Total Other (Expense)	(624)	(270)
Total Other Income/(Expense)	25,389	15,685
Net Income, Before Extraordinary Item	414,255	122,562
<u>Extraordinary Item</u>		
Management Fees	(300,000)	-
Net Income, After Extraordinary Item/Before Income Tax	114,255	122,562
INCOME TAX EXPENSE	(29,238)	(34,650)
NET INCOME	85,017	87,912
RETAINED EARNINGS, BEGINNING	662,038	574,126
RETAINED EARNINGS, Ending	\$ 747,055	\$ 662,038

**LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.
BATON ROUGE, LA
STATEMENT OF CASH FLOW**

	UNRESTRICTED	
	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from services	\$3,793,342	\$2,997,811
Cash paid to suppliers and employees	<u>(3,683,452)</u>	<u>(2,835,657)</u>
Net cash provided by operating activities	<u>109,890</u>	<u>162,154</u>
 CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Securities	(13,624)	-0-
Purchase of Property and Equipment	<u>(71,976)</u>	<u>(6,004)</u>
Net Cash (used by) investing activities	<u>(85,600)</u>	<u>(6,004)</u>
 CASH FLOW FROM FINANCING ACTIVITIES:		
Debt Reduction (Long Term)	(10,680)	(7,016)
Borrowings from Affiliates, Net	(32,570)	(6,876)
Shareholder Loans, Net	<u>(17,198)</u>	<u>3,824</u>
Net cash provided by financing activities	<u>(\$60,448)</u>	<u>(\$10,068)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (36,158)	 146,082
 CASH AND CASH EQUIVALENTS - beginning of year	 <u>498,022</u>	 <u>351,940</u>
 CASH AND CASH EQUIVALENTS - end of year	 <u>\$461,864</u>	 <u>\$498,022</u>

See Accountant's Audit Report

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LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.
BATON ROUGE, LA
STATEMENT OF CASH FLOW

YEAR ENDED JUNE 30

2006

2005

Schedule reconciling net income to net cash flow (used in)/
provided by operating activities:

Net income	\$85,017	\$87,912
Adjustments to reconcile net income to net cash provided by operating activities:		
Theft Loss	1,040	-0-
Depreciation	24,955	19,800
(Increase)/Decrease in accounts receivable	13,589	(8,867)
(Increase)/Decrease in other receivables	1,319	(4,765)
Decrease/(Increase) in refundable income taxes	(8,481)	12,711
Decrease/(Increase) in prepaid expenses	37,820	(37,193)
(Decrease)/Increase in accounts payable	(64,970)	77,070
(Decrease)/Increase in accrued liabilities	19,601	15,486
Net Cash Provided by Operating Activities	<u>\$109,890</u>	<u>\$162,154</u>
Income Tax Paid	<u>\$29,238</u>	<u>\$25,315</u>
Interest Paid	<u>\$563</u>	<u>\$1,598</u>

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. Summary of Significant Accounting Policies

Operations

The Company provides therapeutic psychiatric programs designed to eliminate inappropriate and maladaptive behaviors. Services provided are designed to help persons with developmental disabilities and severe and persistent behavioral problems reach their maximum functioning level in the community. All programs are operated in southern Louisiana and are primarily funded by several State of Louisiana agencies through the Department of Health and Hospitals.

Revenue and Cost Recognition

Revenue is recognized when services are provided. Expenses are recognized as incurred.

Property and Equipment

Property and Equipment are recorded at cost. Expenditures are charges against earnings as incurred. Major expenditures exceeding \$1,000 for renewals and betterments are capitalized. When items are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any resulting gain or loss is credited to or charged against income.

Depreciation is provided in amounts sufficient to related the cost of depreciable assets to operations over their estimated service lives (5 to 7 years for furniture and equipment; 30 years for leasehold improvements), using the straight-line method.

Income Taxes

Incomes taxes, if any, are provided for the tax effects of transactions, reported in the financial statements and consist of taxes currently due plus deferred taxes. The deferred tax assets and liabilities, if any, represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or paid.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is based on prior experience and management's assessment of the collectibility of accounts receivable. Due to the nature of the receivable, all amounts are considered to be collectible and, therefore, an allowance for uncollectible accounts has not been established.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. Summary of Significant Accounting Policies (continued):

Cash and Cash Equivalents

Cash and cash equivalents consist of items having maturities of three months or less from the date of acquisition.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. As of June 30, 2006 and 2005, substantially all of the Company's trade receivables are due from governmental agencies or the State of Louisiana.

The Company maintains its cash balances in financial institutions located in Baton Rouge, Louisiana. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of June 30, 2006 and 2005, the Company had uninsured cash balances of \$352,457 and \$388,083.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing various programs have been summarized on a functional basis in the supplemental Schedule of Operating Income and Functional Expenses. Accordingly, certain cost have been allocated among the programs benefited.

Allocation of Administrative Expenses

Central office overhead expenses are prorated based upon the percentage of each program's direct expenses to total direct expenses.

Federal Funding

The company currently manages four social service programs which are funded through State Agencies. The New Orleans PTRP Program is partially funded under the Community Mental Health Services Block Grant, (CFDA #-93.958), and TNAF. \$104,520 of federal funding, or 100% of the program's total funding, was expended during the year ending 6/30/06. The Waiver and Social Detox programs have been determined to be major programs for the company.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

2. Related Party Transactions

During the years ended June 30, 2006 and 2005, the Company performed rehabilitation and therapy services for The Harmony Center, Inc., which is managed by an officer of the Company. The annual amount earned by the Company under this arrangement totaled \$-0- and \$50,400 for the years ending June 30, 2006 and 2005, respectively.

As described in Note 3, the Company rented office space from The Harmony Center, Inc. for the years ended June 30, 2006 and 2005. The amount of rental expense incurred by the Company under these lease agreements totaled \$13,850 and \$18,000, respectively.

As of June 30, 2005 the Company owed The Harmony Center, Inc. \$35,647. This balance has been paid off during the year ending June 30, 2006.

As described in Note 3, the company rented office space from Louisiana Health & Rehab Center, Inc., a non-profit organization managed by a Company shareholder. The amount of rental expense incurred by the Company under these lease agreements totaled \$15,150 for the year ending June 30, 2006 and \$24,782 for the year ending June 30, 2005.

The Company paid management fees to Johnson Management Group, LLC a company whose managing member is a shareholder of the Company. The management fees for years ending 6/30/06 and 6/30/05 were \$125,000 and \$84,000, respectively. A one time catch up payment of \$300,000 for underpaid service was made during the 6/30/06 fiscal year.

The Company has advanced funds to the shareholders in the form of loans totaling \$51,369 and \$34,171 as of June 30, 2006 and 2005, respectively. \$50,000 of the original principal is evidenced by a promissory note (\$50,000 @ 3.31% - 9/1/2012 maturity), as of 6/30/06.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

3. Operating Leases

The Company leases various office facilities and equipment under the following lease agreements:

Lessor	Terms
Harmony Center, Inc. (3970 Louisa Street - New Orleans Recreation)	One year lease, commencing 7/1/05, terminating 6/30/06, \$500 monthly rental. The lease has been renewed for a one year period commencing 7/1/06 – (\$850 month).
LA Heath & Rehab Center, Inc. (1033 N. Lobdell - Administrative Office)	One year lease, commencing 7/1/05, terminating 6/30/06, \$1,332 monthly rental. The lease is renewed annually for one year periods commencing 7/1/06.
Harmony Center, Inc. (4914 McClelland - Social Detox)	One year lease, commencing 7/1/05, terminating 6/30/06. \$1,000 monthly rental. The lease has been renewed for a one year period commencing 7/1/06.
LA Health & Rehab Center, Inc. (930 Webb Street Lafayette, LA)	One year lease, commencing 7/1/05, terminating 6/30/06, \$800 monthly rental. The lease has been renewed for a one year period commencing 7/1/06.
Xerox Corporation (Social Detox)	Five year lease, commencing 1/1/05, terminating 12/31/09, \$468 base charge plus .0099 cents per copy.
Xerox Corporation (1033 Lobdell – Downstairs Administrative Office)	Five year lease, commencing 4/1/02, terminating 3/31/07 \$466 base charge.
Xerox Corporation (1033 Lobdell – Upstairs)	Five year lease, commencing 1/1/05, terminating 12/31/09 \$715 base charge

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

Future Annual Minimum Payments:

	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/10</u>
Louisiana Health & Rehab Center (Admin. Office)	\$15,984	\$	\$	\$
Harmony Center (New Orleans Rec)	10,200			
Harmony Center (Social Detox)	12,000			
Louisiana Health & Rehab Center (Laf/Waiver)	9,600			
Xerox Corporation (Social Detox)	5,615	5,615	5,615	2,808
Xerox Corporation (Admn. Office)	8,585	8,585	8,585	4,293
Xerox Corporation (Admn. Office- Upstairs)	<u>4,018</u>	_____	_____	_____
Totals	<u>\$66,002</u>	<u>\$14,200</u>	<u>\$14,200</u>	<u>\$7,101</u>

*The total of minimum future rental payments is \$101,503.

Total rent expense under the above-described leases for the years ended June 30, 2006 and 2005 was \$58,671 and \$66,447, respectively.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

4. Program Revenues/Concentrations

The Company provides care to clients in the following therapeutic programs which are funded by several State of Louisiana agencies through the Department of Health and Hospitals. The Lafayette Waiver Program accounted for 83% of the Company's revenue at 6/30/06 and 81% at 6/30/05. This program is located in Lafayette, LA.

<u>Program</u>	<u>Year Ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Baton Rouge Mental Health	\$ -0-	\$ 29,433
Baton Rouge Waiver	219,010	106,187
Lafayette Waiver	3,056,789	2,359,560
New Orleans Recreation	104,520	112,404
Social Detox	<u>318,881</u>	<u>264,802</u>
 Total State of LA programs	 <u>\$3,699,200</u>	 <u>\$2,872,386</u>
 Other revenues –		
Harmony Center	\$ <u>-0-</u>	\$ <u>50,400</u>
 Total Revenue	 <u>\$3,699,200</u>	 <u>\$2,922,786</u>

Note: The Baton Rouge Mental Health program was terminated during the year ending 6/30/05 due to State budget cuts and poor program participation.

5. Contingencies

Current and prior funds received from various funding agencies are subject to audit by the respective agencies. Generally accepted accounting principles preclude a charge to income for a provision for loss contingencies, if any, that cannot be reasonably estimated.

As of December 12, 2000, the Company has an irrevocable standby letter of credit with Chase in favor of the State of Louisiana, Department of Health and Hospitals, in the amount of \$20,000. The letter is automatically extended for one year periods, unless notified at least sixty days prior to the current expiration date of November 30, 2006, or the subsequent anniversary date thereafter.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

6. Retirement Plan

The Company adopted a simple IRS plan under section 408 (p) of the internal revenue code, effective for the pay period ending 3/0/01. The Company has chosen a 2% matching option. All company matching contributions are paid in as of 6/30/05.

Due to the simple plan exceeding 100 participants during the year ending 6/30/05, a 401K retirement plan was adopted effective 1/1/05, and the company has elected 3% matching option.

	<u>YE 6/30/06</u>	<u>YE 6/30/05</u>
<u>Simple IRA</u>		
Employee Deferrals	\$ _____	\$3,169
Employer Contributions	\$ _____	\$3,186
Matching IRA Liability Due	\$ _____	\$ -0-
<u>401K</u>		
Employee Deferrals	\$28,983	\$2,308
Employee Contribution	\$22,799	\$1,538
Matching 401K Liability Due	\$ 1,494	\$1,538
Employee 401K Liability Due	\$ 2,323	\$ -0-

7. Accounts Receivable – Grants & Contracts

As of year end, unbilled accounts receivable from grants and contracts was composed of:

	<u>6/30/06</u>	<u>6/30/05</u>
LA Dept of Health & Hospitals	\$247,607	\$266,616
Capital Area Human Services	<u>27,845</u>	<u>22,425</u>
	<u>\$275,452</u>	<u>\$289,041</u>

*\$275,452 of the accounts have been subsequently collected for the 6/30/06 year ending.

**LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

	<u>6/30/06</u>	<u>6/30/05</u>
8. <u>Long Term Debt</u>		
Hancock Bank note; bearing interest @ 10.75% payable in 48 payments of \$292; maturing on 5/12/07. A 2001 Ford van serves as collateral.	\$ -0-	\$6,042
Chase Bank note, bearing interest @ 10.75%, payable in 37 payments of \$425; maturing on 4/16/07. A 2003 Ford van serves as collateral.	-0-	8,567
Total	\$ -0-	\$14,609
Current Maturity of Long Term Debt	<u>-0-</u>	<u>(7,660)</u>
	<u>\$ -0-</u>	<u>\$ 6,949</u>

Short Term Debt

Chase Bank note, bearing interest @ 10.75%, payable in 37 payments of \$425; maturing on 4/16/07. A 2003 Ford van serves as collateral.	\$ <u>-0-</u>	\$ <u>3,929</u>
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9. Subsequent Events

Due to Hurricane Katrina the New Orleans Program (NOPTR) had to close its doors for the month of September 2005 losing \$9,367 of billable revenue. All of the programs capital assets were casualty losses, resulting in a \$971 loss in September 30, 2005. The short term loss of the Company's smallest program and the \$971 loss of capital assets is not material, and in my opinion, does not effect these audited financial statements.

10 Extraordinary Item

The Company decided to make a one time catch up management fee payment of \$300,000 to Johnson Management Group, LLC. This payment was made possible due to a property settlement amongst the Company's shareholders, as well as the level of working capital available as of 6/30/05.

SUPPLEMENTAL INFORMATION

LOUISIANA HEALTH AND REHAB OPTIONS, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2006

	Administration	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
REVENUES						
4000 · Reimbursed Expenses	0.00	0.00	712.72	0.00	0.00	712.72
4070 · Services	0.00	219,009.70	3,055,993.73	104,870.37	318,831.00	3,698,704.80
Total Revenues	0.00	219,009.70	3,056,706.45	104,870.37	318,831.00	3,699,417.52
Expense						
6000 · Advertising and Promotion	317.90	0.00	2,764.48	96.00	191.00	3,369.38
6110-1 · Gasoline	612.22	0.00	1,708.20	400.00	494.46	3,214.88
6110-2 · Maintenance	0.00	0.00	162.02	0.00	0.00	162.02
6110-3 · Car Maintenance	0.00	0.00	2,160.00	0.00	0.00	2,160.00
6110-2 · Maintenance - Other	0.00	0.00	2,322.02	0.00	0.00	2,322.02
Total 6110-2 · Maintenance	0.00	0.00	2,322.02	0.00	0.00	2,322.02
6112 · Annual Card Fees	700.00	0.00	0.00	0.00	0.00	700.00
6120 · Bank Service Charges	74.77	27.10	756.40	95.37	0.00	953.64
6132 · Catering Services	0.00	0.00	1,150.00	0.00	0.00	1,150.00
6135 · Client Cost	0.00	0.00	-56.07	0.00	482.40	426.33
6142-2 · Fees	1,345.00	0.00	0.00	0.00	0.00	1,345.00
6142 · Contract Outside Services	18,000.00	0.00	0.00	0.00	0.00	18,000.00
6142-1 · New Business Development	16,784.45	55.00	18,951.22	-65.81	500.00	36,224.86
6142 · Contract Outside Services - Other	34,784.45	55.00	18,951.22	-65.81	500.00	54,224.86
Total 6142 · Contract Outside Services	17,475.00	1,213.00	4,515.00	559.00	1,193.00	24,955.00
6150 · Depreciation Expense	299.00	0.00	0.00	0.00	0.00	299.00
6160-1 · Subscription	145.00	0.00	0.00	0.00	0.00	145.00
6160 · Dues and Subscriptions	1,618.69	729.55	15,685.37	3,419.78	1,367.91	22,821.30
6165-2 · Retirement Matching	6,905.04	1,122.00	29,265.32	1,149.00	5,755.53	44,196.89
6165 · Employee Benefits	-3,217.18	1,537.03	30,607.34	6,076.53	4,701.83	39,705.55
6165-1 · Health Insurance	3,687.86	2,659.03	59,872.66	7,225.53	10,457.36	83,902.44
6165 · Employee Benefits - Other	358.57	0.00	345.56	0.00	1,260.84	1,964.97
6170 · Equipment Purchase	35.96	0.00	0.00	0.00	0.00	35.96
6170 · Equipment Rental						

LOUISIANA HEALTH AND REHAB OPTIONS, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2006

	Administration	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
6180 · Insurance						
6180-1 · Liability Insurance	-1,157.78	2,303.16	47,790.57	2,303.16	5,182.11	56,421.22
6180-3 · Work Comp	2,514.73	2,878.32	50,294.68	818.04	4,090.23	60,596.00
6180-4 · Automobile Insurance	6,156.00	0.00	3,078.00	0.00	3,087.00	12,321.00
6180-5 · Commercial Property	1,452.35	0.00	533.65	0.00	0.00	1,986.00
6180-6 · Employee Insurance	129.36	226.38	3,210.90	0.00	831.86	4,398.50
Total 6180 · Insurance	9,094.66	5,407.86	104,907.80	3,121.20	13,191.20	135,722.72
6200 · Interest Expense	0.00	0.00	459.39	0.00	103.60	562.99
6225 · Lease Expense						
6225-3 · Copy Machines	6,597.37	0.00	0.00	0.00	7,130.99	13,728.36
Total 6225 · Lease Expense	6,597.37	0.00	0.00	0.00	7,130.99	13,728.36
6230 · Licenses and Permits	50.00	785.11	900.00	20.00	164.89	1,920.00
6231 · Manager Meetings	68.42	0.00	0.00	0.00	0.00	68.42
6233 · Membership Fee	0.00	0.00	150.00	0.00	0.00	150.00
6235 · Management Fees	132,000.00	0.00	0.00	0.00	0.00	132,000.00
6240 · Miscellaneous	463.32	0.00	1,204.82	0.00	67.11	1,735.25
6245 · Office Supplies	12,224.52	58.64	8,686.48	268.56	2,457.49	23,695.69
6250 · Postage and Delivery	0.00	0.00	857.92	110.82	0.00	968.74
6270 · Professional Fees						
6270-1 · Consultation	32,788.12	0.00	8,480.00	0.00	9,600.00	50,868.12
6270-3 · Fingerprint/Lab	809.50	78.00	3,263.68	0.00	288.00	4,439.18
6270-4 · Legal Fees	6,000.00	0.00	0.00	0.00	0.00	6,000.00
6270-5 · Accounting	406.00	0.00	0.00	0.00	0.00	406.00
6270 · Professional Fees - Other	75.00	0.00	1,840.00	-6.00	0.00	1,909.00
Total 6270 · Professional Fees	40,078.62	78.00	13,563.68	-6.00	9,888.00	63,622.30
6280 · Recreation Activities	503.48	0.00	174.38	5,723.93	0.00	6,401.79
6290 · Rent	19,342.92	0.00	10,250.00	2,350.00	13,000.00	44,942.92
6300 · Repairs						
6300-1 · Vehicle Repairs	0.00	0.00	618.16	1,681.00	0.00	2,299.16
6300-2 · Building Repairs	0.00	0.00	0.00	0.00	477.97	477.97
6300-4 · Equipment Repairs	622.55	0.00	175.00	367.58	18.42	1,183.55

LOUISIANA HEALTH AND REHAB OPTIONS, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2006

	Administration	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
6300-5 · Janitorial Exp	0.00	0.00	0.00	0.00	-4.75	-4.75
6300 · Repairs - Other	95.00	0.00	0.00	0.00	0.00	95.00
Total 6300 · Repairs	717.55	0.00	793.16	2,048.58	491.64	4,050.93
6310 · Supplies-Food	408.66	242.89	304.40	200.00	43,129.77	44,285.72
6320 · Supplies-Janitorial	0.00	0.00	0.00	0.00	1,794.17	1,794.17
6321 · Supplies	1,285.64	728.73	2,247.00	0.00	840.64	5,102.01
6322 · Furnitures and Fixtures	0.00	0.00	890.00	0.00	436.00	1,326.00
6340 · Telephone						
6340-2 · Pager	144.29	18.12	440.83	162.08	220.42	985.74
6340-3 · Cell Phone	1,388.19	631.76	1,382.82	2,124.43	1,569.99	7,097.19
6340 · Telephone - Other	1,131.02	-97.74	12,805.49	-420.33	7,698.18	21,116.62
Total 6340 · Telephone	2,663.50	552.14	14,629.14	1,866.18	9,488.59	29,199.55
6350 · Travel & Ent						
6350-1 · Mileage	441.14	128.24	48,644.01	0.00	52.90	49,266.29
6350-2 · Entertainment	0.00	0.00	129.62	0.00	0.00	129.62
6350-3 · Meals	664.76	204.19	75.00	0.00	0.00	943.95
6350-4 · Travel	706.95	0.00	0.00	0.00	0.00	706.95
6350 · Travel & Ent - Other	2,752.88	0.00	0.00	0.00	0.00	2,752.88
Total 6350 · Travel & Ent	4,565.73	332.43	48,848.63	0.00	52.90	53,799.69
6390 · Utilities						
6390-1 · Gas and Electric	2,567.71	0.00	4,381.97	1,861.04	0.00	8,810.72
6390-2 · Water	160.74	0.00	0.00	451.38	0.00	612.12
Total 6390 · Utilities	2,728.45	0.00	4,381.97	2,312.42	0.00	9,422.84
6560 · Payroll Expenses						
6560-1 · Wages	93,489.54	113,575.17	1,883,425.51	30,836.52	154,477.01	2,275,803.75
6560-2 · Wages-Director	0.00	0.00	18,461.50	12,923.04	1,140.10	32,524.64
6560-3 · Wages-Other	866.28	135.37	5,198.17	514.36	703.92	7,418.10
6560-4 · FICA Matching Tax	6,954.67	8,744.67	146,240.65	3,384.95	13,667.60	178,982.54
6560-5 · FUTA/SUTA Tax	1,050.00	2,349.52	30,520.90	577.88	2,980.18	37,478.48
Total 6560 · Payroll Expenses	102,360.49	124,804.73	2,083,846.73	48,236.75	172,968.81	2,532,217.51

LOUISIANA HEALTH AND REHAB OPTIONS, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2006

	Baton Rouge Administration	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
6820 - Taxes					
6820-4 - State	1,248.21	0.00	0.00	0.00	1,248.21
6820 - Taxes - Other	12.96	0.00	0.00	0.00	12.96
Total 6820 - Taxes	1,261.17	0.00	0.00	0.00	1,261.17
8000 - Contributions	100.00	0.00	0.00	0.00	100.00
8005 - Penalties	524.45	0.00	0.00	0.00	524.45
8011 - Training	0.00	114.00	0.00	10.00	119.00
Total Operating Expenses	398,493.37	2,405,244.34	77,982.31	291,162.77	3,310,552.00
Central Office Allocation	-398,493.37	329,139.64	10,671.29	39,843.44	0.00
Total Expenses	0.00	156,508.21	88,653.60	331,006.21	3,310,552.00
Net Operating Income	\$ -	\$ 62,501.49	\$ 322,322.47	\$ 16,216.77	\$ 388,865.52

**LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.
BATON ROUGE, LOUISIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health And Human Services:			
Prevention & Treatment Of Substance Abuse	93.959	25A1065	<u>331,008</u>
Total pass-through programs			<u>331,008</u>
Total U.S. Department of Health And Human Services			331,008
Total Expenditures of Federal Awards			<u>\$331,008</u>

See accompanying Notes to Financial Statements.

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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 and Stockholders of
Louisiana Health & Rehabilitation Options, Inc.

We have audited the financial statements of Louisiana Health & Rehabilitation Options, Inc. as of and for the years ended June 30, 2006 and 2005, have issued our report thereon dated December 14, 2006. We conducted our audit in accordance with generally accepted auditing standards 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 Louisiana Health & Rehabilitation Options, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control of financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Health & Rehabilitation Options, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are reported under Government Auditing Standards.

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We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. We noted other matters we have reported to management of Louisiana Health & Rehabilitation Options, Inc. in a separate letter dated December 14, 2006.

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



Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors and Stockholders of
Louisiana Health & Rehabilitation Options, Inc.

Compliance

We have audited the compliance of Louisiana Health & Rehabilitation Options, Inc. with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Louisiana Health & Rehabilitation Options, Inc.'s major federal programs are identified in the summary of auditor's 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 programs is the responsibility of Louisiana Health & Rehabilitation Options, Inc.'s management. Our responsibility is to express an opinion on Louisiana Health & Rehabilitation Options, Inc.'s compliance based on our audit.

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; and OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about Louisiana Health & Rehabilitation Options, 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 of Louisiana Health & Rehabilitation Options, Inc.'s compliance with those requirements.

In our opinion, Louisiana Health & Rehabilitation Options, Inc. complied, in all material

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respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Louisiana Health & Rehabilitation Options, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Louisiana Health & Rehabilitation Options, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Louisiana Health & Rehabilitation Options, Inc. as of and for the year ended June 30, 2006 and have issued our report thereon dated December 14, 2006, presented on page 22. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and on our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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Baton Rouge, LA 70810

This report is intended solely for the information and use of the Board of Directors, management, State 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.



Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDITORS RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Louisiana Health & Rehabilitation Options, Inc.
2. No reportable condition or questioned cost disclosed during the audit.
3. No instances of noncompliance material to the financial statements of Louisiana Health & Rehabilitation Options, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No reportable conditions disclosed during the audit of internal control over major federal award programs were reported.
5. The auditor's report on compliance for the major federal award programs for Louisiana Health & Rehabilitation Options, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:
Lafayette Waiver (93.958)
Social Detox (93.959)
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Louisiana Health & Rehabilitation Options, Inc. qualified as a low-risk auditee.