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LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 FEB 7 6 2000

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<u>R. BROWN & COMPANY, APC</u>

12046 Justice Avenue, Suite B. Baton Rouge, Louisiana 70816 Telephone: (225) 296-5200 Fax: (225) 296-5201 E-Mail: REBCPA@worldnet.att.net

CERTIFIED PUBLIC ACCOUNTANTS

Richard E. Brown, C.P.A. Terre Bidwell, C.P.A.

Independent Auditors' Report

To the Board of Directors Louisiana Health and Rehabilitation Options, Inc. Baton Rouge, Louisiana

We have audited the accompanying balance sheets of Louisiana Health and Rehabilitation Options, Inc. as of June 30, 1999 and 1998, and the related statements of income and retained earnings and cash flows 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.

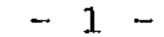
We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Health and Rehabilitation Options, Inc. as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 1999, on our consideration of Louisiana Health and Rehabilitation Option, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Baton Rouge, Louisiana August 31 1000

August 31, 1999



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BALANCE SHEET

	JUNE 30	
	1999	1998
ASSETS		
CURRENT ASSETS	\$59,872	\$63,138
Cash and cash equivalents	224,527	216,864
Accounts receivable	3,372	2,106
Receivable - other	5,490	2,980
Prepaid expenses	293,261	285,088
PROPERTY AND EQUIPMENT		
Furniture & fixtures	31,981	18,537
Office equipment	24,334	24,334
Computers	44,987	37,248
Leasehold improvements	65,517	65,517
Automotive	39,255	5,959
Automotive	206,074	151,595
Less accumulated depreciation	(89,322)	(70,402)
Less accumulated deprovaderon	116,752	81,193
OTHER ASSETS		1 000
Security deposits	1,000	1,000
	\$ 411,013	\$ 367,281
Total assets		
LIABILITIES AND STOCKHOLDERS	' EQUITY	
CURRENT LIABILITIES		600 404
Accounts payable	\$18,954	\$23,484
Accrued liabilities	22,614	25,851
Income taxes payable	6,513	-
Due to affiliate (Note 2)	16,266	45,183
	64,347	94,518
CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY		
Common stock - no par value; 1,000 shares	1 000	1,000
authorized, 100 shares issued	1,000	-
Retained earnings	345,666	271,763
	346,666	272,763
Total liabilities and stockholders' equity	\$ 411,013	\$ 367,281_
IOPAT TTADITICIES and BECCHMOIDECER Addres		

The accompanying notes are an integral part of these financial statements.

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LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

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BATON ROUGE, LOUISIANA STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR ENDE	ED JUNE 30
	1999	1998
REVENUES (Note 4)	\$1,274,690	\$1,019,32
EXPENSES		
Salaries and wages	781,439	589,51
Fringe benefits	90,811	76,17
Operating costs		
Bad debt expense	16,748	3,50
Contract services	7,385	6,01
Data processing	8,215	7,94
Depreciation	18,920	19,15
Food	7,007	19,15
Insurance	27,541	26,29
	•	-
Interest expense Lab/fingernrinte	38	23
Lab/fingerprints	1,428	1,02
Lease rentals (Notes 2 and 3)	47,451	56,27
Management fees Miscellaneous	45,000	36,00
	5,425	7,20
Motor vehicles	5,058	15,10
Office expense	11,822	8,99
Postage Desferred as a local second	752	1,01
Professional services	7,023	7,84
Recreation	25,206	19,17
Repairs and maintenance	5,943	3,460
Supplies	11,157	5,842
Taxes and licenses	3,180	1,91
Telephone	22,968	19,17
Travel	12,812	16,33
Utilities	23,959	32,273
	1,187,288	960,460
Income from operations	87,402	58,854
OTHER INCOME		
Interest income	1,441	62:
Income before provision for income taxes	88,843	59,47
PROVISION FOR INCOME TAXES		
Federal	12,137	9,304
State	2,803	-
	14,940	2,260
		±1,50,
NET INCOME	73,903	47,911
Retained earnings - beginning of year	271,763	223.852



The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

	YEAR ENDED	JUNE 30
	1999	1998
	·	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from services	\$1,267,027	\$944,415
Cash paid to suppliers and employees	(1,185,631)	(944,646)
Net cash provided by (used in) operating	01 000	10011
activities	81,396	(231)
CASH FLOWS FROM INVESTING ACTIVITIES:	(54,479)	(5,551)
Purchase of property and equipment	(1,266)	(2,106)
Loans to others	(55,745)	(7,657)
Net cash used in investing activities	(3071107	
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments to) borrowings from		
affiliate, net	(28,917)	10,817
Net cash (used in) provided by financing		
actiivties	(28,917)	10,817
NET (DECREASE) INCREASE IN CASH AND CASH	10.000	2 020
EQUIVALENTS	(3,266)	2,929
	63,138	60,209
CASH AND CASH EQUIVALENTS - beginning of year		
CASH AND CASH EQUIVALENTS - end of year	\$ 59,872	ş 63,138
CASH AND CASH EQUIVALENTS CHO OF YOUR		
Schedule reconciling net income to net cash flow		
(used in) provided by operating activities:		
	672 002	\$47,911
Net income	\$73,903	4214577
Adjustments to reconcile net income to net cash		
provided by operating activities:	18,920	19,156
Depreciation	(7,663)	(71,407)
(Increase) in accounts receivable	(2,510)	(2,980)
(Increase) in prepaid expenses	(4,530)	17,703
(Decrease) increase in accounts payable	(3,237)	4,178
(Decrease) in accrued liabilities	1-1	
Increase (decrease) in income taxes	6,513	(14,792)
payable		
Net cash provided by (used in) operating		
activities	\$ 81,396	\$ (231)

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999 AND 1998

1. Summary of Significant Accounting Policies

Operations

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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 charged against earnings as incurred. Major expenditures 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 relate 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

Income 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 settled.

In August 1999, the Company applied to the Internal Revenue Service to change its tax status to a 501©(3) nonprofit organization. As of the date of issuance of these financial statements no determination had been made.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999 AND 1998

1. Summary of Significant Accounting Policies (continued)

Allowance for Uncollectible Accounts

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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 receivables, all amounts are considered to be collectible and, therefore, an allowance for uncollectible accounts has not been established.

Cash and Cash Equivalents

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

Concentrations 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, 1999 and 1998, substantially all of the Company's trade receivables are due from governmental agencies of the State of Louisiana.

The Company maintains its cash balances in a financial institution located in Baton Rouge, Louisiana. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of June 30, 1999, the Company had uninsured cash balances totaling \$19,720.

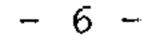
Estimates

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.

Allocation of Administrative Expenses

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999 AND 1998

2. Related Party Transaction

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During the years ended June 30, 1999 and 1998, the Company performed rehabilitation and therapy services for The Harmony Center, Inc., which is owned by an officer of the Company. The amount earned by the Company under this arrangement totaled \$178,200 and 195,873 for the years ended June 30, 1999 and 1998, respectively.

As described in Note 3, the Company rented office space from the Harmony Center, Inc. For the years ended June 30, 1999 and 1998, the amount of rental expense incurred by the Company under these leases agreement totaled \$15,000 and \$12,000, respectively.

As of June 30, 1999 and 1998, the Company owed the Harmony Center, Inc. \$16,266 and \$45,183, respectively.

The Company also rented office space from CEG, Inc., a corporation owned by an officer of the Company. The amount of rental expense incurred by the Company under this lease agreement totaled \$24,000 for each year ended June 30, 1999 and 1998.

During the years ended June 30, 1999 and 1998, the Company paid management fees totaling \$45,000 and \$36,000, respectively, to CEG, Inc., a corporation owned by an officer of the Company.

3. Operating Leases

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

Lessor Harmony Center, Inc. (2744 Florida Blvd administrative office)	Terms One year term, commencing 7/1/98, terminating 6/30/99, \$500 monthly rental. The lease has been renewed for a one year period comencing 7/1/99.
Harmony Center, Inc. (3970 Louisa St New Orleans Recreation)	One year lease, commencing 7/1/98, terminating 6/30/99, \$500 monthly rental. The lease has been renewed for one year period commencing 7/1/99.
CEG, Inc. (2056 North Blvd	One year lease, commencing 7/1/98, terminating 6/30/99, \$2,000 monthly

Reality House)

rental. The lease has been renewed for one year period commencing 7/1/99.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999 AND 1998

3. Operating Leases (continued)

Lessor	Terms
T. J. Jemison (1900 North Blvd Baton Rouge MHRS)	Month to month lease, \$1,500 monthly rental. Lease terminated 10/31/98.
Harmony Center, Inc. (4914 McClelland - Social Detox)	Initial lease, commencing 4/1/99, terminating 6/30/99, \$1,000 monthly rental. The lease has been renewed for one year period commencing 7/1/99.

Total rent expense under the above-described leases for the years ended June 30, 1999 and 1998 was \$45,000 and \$42,000, respectively.

Other rental expense totaled \$2,451 and \$14,277 for the years ended June 30, 1999 and 1998, respectively.

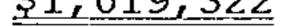
Program Revenues 4.

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:

	Year Ende	June 30		
Program	1999	1998		
Baton Rouge Mental Health Rehab Personal Care Attendant (Waiver) Supervised Indep Living (Waiver)	\$ 110,700 208,811 320,167	\$ 86,125 143,478 303,945		
Respite (Waiver) Reality House Substance Abuse New Orleans Recreation Social Detox	69,215 161,816 139,713 82,061	- 166,636 92,543		
Outpatient Substance Abuse Total State of Louisiana programs	<u>4,008</u> 1,096,491	<u> </u>		
Other revenues - Harmony Center Total revenue	<u>178,200</u> <u>\$1,274,691</u>	<u>195,873</u> \$1,019,322		

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999 AND 1998

5. Contingencies

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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 June 30, 1999, the Company has an irrevocable standby letter of credit in favor of the State of Louisiana, Department of Health and Hospitals in the amount of \$20,000.

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R. BROWN & COMPANY, APC

12046 Justice Avenue, Suite B. Baton Rouge, Louisiana 70816 Telephone: (225) 296-5200 Fax: (225) 296-5201 E-Mail: REBCPA@worldnet.att.net

CERTIFIED PUBLIC ACCOUNTANTS

Richard E. Brown, C.P.A. Terre Bidwell, C.P.A.

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

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

We have audited the financial statements of Louisiana Health and Rehabilitation Options, Inc. as of and for the year ended June 30, 1999, and have issued our report thereon dated August 31, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Louisiana Health and 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 the 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 required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana Health and 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 over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in

relation to the financial statements being audited may occur and

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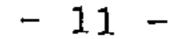
not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Prour El Company

Baton Rouge, Louisiana August 31, 1999

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Louisiana Health & Rehabilitation Options

"Where Growth Begins"

CORRECTIVE ACTION PLAN

February 10, 2000

Legislative Auditor State of Louisiana

Louisiana Health & Rehabilitation Options respectfully submits the following corrective action plan for the year ended June 30, 1999.

Name and address of independent public accounting firm: R. Brown &

Company, APC CPAs, 12046 Justice Ave. Suite B, Baton Rouge, LA 70816.

Audit period: July 1, 1998 to June 30, 1999

The findings from the June 30, 1999 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

Β. FINDINGS-FINANCIAL STATEMENTS AUDIT

Reportable Condition

Audit Not Completed in Accordance with LSA-R.S. 24:513 99-1

Recommendation: None.

Louisiana Health & Rehabilitation Options will Action Taken: insure that the auditor submits the audit report in a timely manner.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD С. **PROGRAMS AUDIT**

U.S. Department of Health & Human Services – None

2744 Florida Boulevard • Baton Rouge, LA 70802 • (225) 344-4947 • Fax (225) 344-0731

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If the Legislative Auditor has questions regarding this plan, please call Desiree Honore at (225) 383-9139.

Sincerely yours,

Soundra Temple

Assistance Executive Director

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