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LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

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 DEC 30 1998

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CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

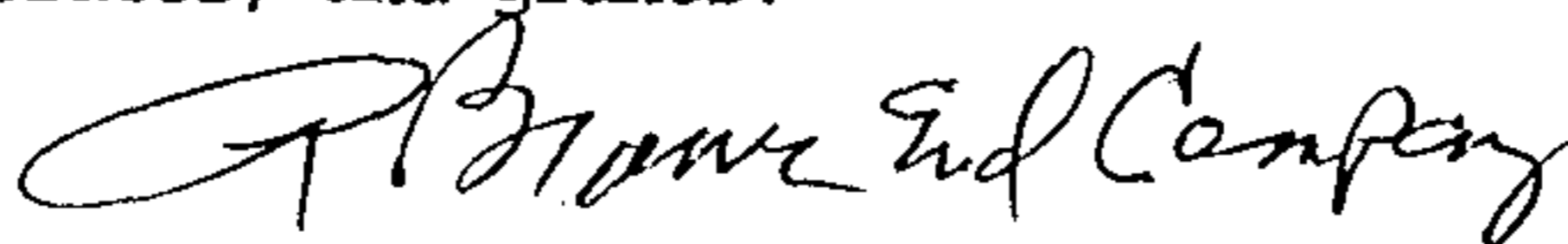
To the Board of Directors  
Louisiana Health and Rehabilitation Options, Inc.  
Baton Rouge, Louisiana

We have audited the accompanying balance sheets of Louisiana Health and Rehabilitation Options, Inc. as of June 30, 1998 and 1997, 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, 1998 and 1997, 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 October 30, 1998, on our consideration of Louisiana Health and Rehabilitation Option, Inc.'s internal control over financial reporting and our tests of its compliance of certain provisions of laws, regulations, contracts, and grants.



Baton Rouge, Louisiana  
October 30, 1998

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

BALANCE SHEET

	JUNE 30	
	1998	1997
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$63,138	\$60,209
Accounts receivable	216,864	141,957
Receivable - other	2,106	3,500
Prepaid expenses	2,980	-
	<u>285,088</u>	<u>205,666</u>
PROPERTY AND EQUIPMENT		
Furniture & fixtures	18,537	17,351
Office equipment	24,334	24,334
Computers	37,248	32,883
Leasehold improvements	65,517	65,517
Automotive	5,959	5,959
	<u>151,595</u>	<u>146,044</u>
Less accumulated depreciation	(70,402)	(51,246)
	<u>81,193</u>	<u>94,798</u>
OTHER ASSETS		
Security deposits	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$367,281</u>	<u>\$301,464</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$23,484	\$5,781
Accrued wages	25,851	21,673
Income taxes payable	-	14,792
Due to affiliate (Note 2)	45,183	34,366
	<u>94,518</u>	<u>76,612</u>
CONTINGENCIES (Note 5)	-	-
STOCKHOLDERS' EQUITY		
Common stock - no par value; 1,000 shares authorized, 100 shares issued	1,000	1,000
Retained earnings	271,763	223,852
	<u>272,763</u>	<u>224,852</u>
Total liabilities and stockholders' equity	<u>\$367,281</u>	<u>\$301,464</u>

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

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.  
BATON ROUGE, LOUISIANA  
STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR ENDED JUNE 30	
	1998	1997
REVENUES (Note 4)	\$1,019,322	\$937,423
EXPENSES		
Salaries and wages	589,517	469,344
Fringe benefits	76,174	69,848
Operating costs		
Bad debt expense	3,500	-
Contract services	6,018	1,395
Data processing	7,946	8,268
Depreciation	19,156	18,370
Insurance	26,292	39,346
Interest expense	234	2,160
Lab/fingerprints	1,020	1,172
Lease rentals (Notes 2 and 3)	56,277	53,081
Management fees	36,000	36,000
Miscellaneous	7,201	7,411
Motor vehicles	15,103	15,384
Office expense	8,995	19,051
Postage	1,018	934
Professional services	7,845	7,650
Recreation	19,170	17,345
Repairs and maintenance	3,460	9,082
Supplies	5,842	14,370
Taxes and licenses	1,919	2,458
Telephone	19,177	22,055
Travel	16,331	14,641
Utilities	32,273	37,226
	<u>960,468</u>	<u>866,591</u>
Income from operations	58,854	70,832
OTHER INCOME		
Interest income	621	-
	<u>59,475</u>	<u>70,832</u>
PROVISION FOR INCOME TAXES		
Federal	9,304	12,013
State	2,260	2,779
	<u>11,564</u>	<u>14,792</u>
NET INCOME	47,911	56,040
Retained earnings - beginning of year	223,852	167,812
Retained earnings - end of year	<u>\$271,763</u>	<u>\$223,852</u>

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

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

STATEMENT OF CASH FLOWS

	YEAR ENDED JUNE 30	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from services	\$944,415	\$802,747
Cash paid to suppliers and employees	(944,646)	(754,556)
Net cash (used in) provided by operating activities	(231)	48,191
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,551)	-
Loans to others	(2,106)	-
Net cash used in investing activities	(7,657)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from affiliate	10,817	4,657
Net cash provided by financing activities	10,817	4,657
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,929	52,848
CASH AND CASH EQUIVALENTS - beginning of year	60,209	7,361
CASH AND CASH EQUIVALENTS - end of year	\$63,138	\$60,209

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

Net income	\$47,911	\$56,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,156	18,370
Bad debt expense	3,500	-
(Increase) in accounts receivable	(74,907)	(59,769)
(Increase) in prepaid expenses	(2,980)	-
Increase (decrease) in accounts payable	17,703	(2,915)
Increase in accrued wages	4,178	21,673
(Decrease) increase in taxes payable	(14,792)	14,792
Net cash (used in) provided by operating activities	(\$231)	\$48,191

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

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies

a. Operations

Louisiana Health and Rehabilitation Options, Inc. 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.

b. Revenue and Cost Recognition

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

c. Property and Equipment

Property and equipment are recorded at cost. Expenditures for maintenance, repairs, and minor renewals 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.

d. 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.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies (continued)

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

f. Cash and Cash Equivalents

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

g. 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, 1998 and 1997, 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 various financial institutions located in Baton Rouge, Louisiana. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000.

h. 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.

i. Allocation of Administrative Expenses

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



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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998 AND 1997

2. Related Party Transactions

During the years ended June 30, 1998 and 1997, 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 \$195,873 for each year ended June 30, 1998 and 1997.

The Company rented office space from the Harmony Center, Inc. For the years ended June 30, 1998 and 1997, the amount of rental expense incurred by the Company under these leases agreement totaled \$12,000 and \$6,000, 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, 1998 and 1997.

As of June 30, 1998 and 1997, the Company owed the Harmony Center, Inc. \$45,183. and \$34,366, respectively.

3. Operating Leases

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

<u>Lessor</u>	<u>Terms</u>
Harmony Center, Inc. (2744 Florida Blvd.)	One year lease, commencing July 1, 1997, terminating June 30, 1998, \$500 monthly rental. The lease has been renewed for a one year period commencing July 1, 1998.
Harmony Center, Inc. (3970 Louisa St.)	One year lease, commencing July 1, 1997, terminating June 30, 1998, \$500 monthly rental. The lease has been renewed for a one year period commencing July 1, 1998.
CEG, Inc. (2056 North Blvd.)	Month to month lease, \$2,000 monthly rental.
T. J. Jemison (1900 North Blvd.)	Month to month lease, \$1,500 monthly rental. The lease terminated October 31, 1998.

Total rent expense under the above-described leases for the years ended June 30, 1998 and 1997 was \$42,000 and \$46,000, respectively. Other rental expense totaled \$14,277 and \$5,081 for the years ended June 30, 1998 and 1997, respectively.

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998 AND 1997

4. Program Revenues

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:

<u>Program</u>	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
Baton Rouge Mental Health Rehab	\$ 86,125	\$ 97,450
New Orleans Rehab	-	21,250
Personal Care Attendant (Waiver)	143,478	74,214
Supervised Independent Living (Waiver)	303,945	140,137
Reality House Substance Abuse	166,636	149,229
Afterschool Respite	92,543	91,866
Outpatient Substance Abuse	<u>30,722</u>	<u>167,404</u>
Total State of Louisiana programs	823,449	741,550
Other revenues - Harmony Center, Inc.	<u>195,873</u>	<u>195,873</u>
Total revenue	<u>\$1,019,322</u>	<u>\$ 937,423</u>

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, in any, that cannot be reasonably estimated.

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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  
The Harmony Center, Inc.

We have audited the financial statements of Louisiana Health and Rehabilitation Options, Inc. as of and for the year ended June 30, 1998, and have issued our report thereon dated October 30, 1998. 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.

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 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, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Arthur G. Company*

Baton Rouge, Louisiana  
October 30, 1998