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LOUISIANA HEALTH & REHABILITATION
OPTIONS, INC.

FINANCIAL STATEMENTS

6/30/04

and

6/30/03

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 2-16-05

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GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
263 Third Street, Suite 309
Baton Rouge, LA 70801

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Louisiana Health & Rehabilitation Options, Inc. (a Louisiana corporation) as of June 30, 2004 and 2003, and the related statements of income, retained earnings, and cash flows for the year 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 generally 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 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 & Rehabilitation Options, Inc. as of June 30, 2004 and 2003, the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(Continued Next Page)

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In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2004, on our consideration of the company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Louisiana Health and Rehabilitation Options, Inc., taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basis 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 27, 2004

Louisiana Health and Rehabilitation Options, Inc.
Balance Sheet
Year Ended June 30, 2004 and June 30, 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 351,940	\$ 181,200
Accounts Receivable	280,174	239,848
Due from Client	65	1,530
Prepaid Insurance	15,750	9,328
Prepaid State Income Tax	1,710	2,476
Prepaid Federal Income Tax	11,518	12,790
Total Current Assets	661,158	447,172
 <u>Fixed Assets</u>		
Automobile	67,033	53,142
Computer Equipment	31,154	6,632
Office Equipment	7,524	37,932
Office Furniture	37,932	17,055
Leasehold Improvements	17,055	28,289
Fixed Assets Subtotal	160,698	143,050
Less Accum. Depreciation	<u>(86,803)</u>	<u>(65,540)</u>
Total Fixed Assets	73,895	77,510
 <u>Other Assets</u>		
Deposits - Security	3,000	1,000
Due From LHRC, Inc.	-	8,300
Due from Shareholders	37,995	47,364
Total Other Assets	40,995	56,664
 TOTAL ASSETS	 <u>776,048</u>	 <u>581,346</u>

Louisiana Health and Rehabilitation Options, Inc.
Balance Sheet
Year Ended June 30, 2004 and June 30, 2003

	June 30, 2004	June 30, 2003
<u>LIABILITIES & EQUITY</u>		
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	27,502	14,493
Unemployment Tax Payable	13,255	9,902
SWH Tax Payable	3,279	3,121
Garnishment Payable	-	2,458
Accrued Payroll Tax	4,998	1,535
Accrued Wages	56,446	16,291
Current Maturities of Long Term Debt	7,025	2,420
Due to Clients-Lafy.Program	2,470	2,317
Due to Affiliate - Harmony Cent	35,647	35,647
Due to LHRC, Inc.	35,700	2,000
Total Other Current Liabilities	186,322	90,184
 <u>Long Term Liabilities</u>		
Current Maturity of Long Term Debt	(7,025)	(2,420)
N/P-Hancock Bank(01 Van)	8,737	11,155
N/P-Bank One(03 Van)	12,888	-
Total Long Term Liabilities	14,600	8,735
TOTAL LIABILITIES	200,922	98,919
 <u>Equity</u>		
Retained Earnings	481,427	432,147
Net Income	92,699	49,280
Common Stock - No Par Value (1,000 shares authorized, 100 shares issued)	1,000	1,000
Total Equity	575,126	482,427
TOTAL LIABILITIES & EQUITY	\$ 776,048	\$ 581,346

LA Health and Rehabilitation Options, Inc.

Statement of Income

June 30, 2004 and June 30, 2003

	<u>12 Months Ended June 30, 2004</u>	<u>12 Months Ended June 30, 2003</u>
<u>INCOME</u>		
Program Revenue	\$ 2,995,279	\$ 2,525,748
 Total Income	 \$ 2,995,279	 \$ 2,525,748
 <u>OPERATING EXPENSES</u>		
Linen & Laundry Supplies	-	587
Advertising and Promotion	3,138	2,687
Automobile Expense	491	1,833
Bank Service Charges	4,427	2,196
Client Cost	4,061	-
Conference	1,577	537
Contract Outside Services	19,662	27,353
Data Processing	-	4,022
Depreciation Expense	21,263	27,503
Dues and Subscriptions	334	370
Employee Benefits	82,167	72,027
Equipment Purchase	891	-
Equipment Rental	1,313	-
Insurance	44,969	21,729
Interest Expense	1,085	120
Licenses and Permits	2,650	7,377
Management Fees	84,000	84,000
Miscellaneous	2,853	3,011
Office Supplies	24,509	23,053
Payroll Expenses		
Wages	2,090,216	1,750,565
FICA Matching Tax	159,355	133,918
FUTA/SUTA Tax	41,603	35,331
Postage and Delivery	2,665	1,702
Professional Fees	21,311	14,316
Professional Development	533	874
Recreation Activities	22,039	21,026
Rent	76,740	62,498
Repairs	435	2,362
Supplies-Janitorial	1,361	3,178
Supplies-Food	34,081	27,718
Taxes-Other	1,974	1,443
Telephone	38,873	33,955
Training	16,034	4,324
Mileage	48,009	42,679
Meals & Entertainment	136	-
Travel	2,538	1,153
Utilities	21,784	20,299
 Total Operating Expenses	 <u>2,879,078</u>	 <u>2,435,747</u>
 INCOME FROM OPERATIONS	 116,201	 90,001

LA Health and Rehabilitation Options, Inc.
Statement of Income
June 30, 2004 and June 30, 2003

	12 Months Ended June 30, 2004	12 Months Ended June 30, 2003
<u>Other Income/(Expense)</u>		
<u>Other Income</u>		
Gain on Sale of Assets	-	500
Interest Income	1,813	4,966
Other Income	-	1,769
Total Other Income	1,813	7,235
<u>Other Expense</u>		
Loss on Obsolete Assets	-	(35,323)
Penalties	-	(1,153)
Total Other (Expense)	-	(36,476)
Total Other Income/(Expense)	1,813	(29,241)
Net Income, Before Tax	118,014	60,760
INCOME TAX EXPENSE	(25,315)	(11,480)
NET INCOME	92,699	49,280
RETAINED EARNINGS, BEGINNING	481,427	432,147
RETAINED EARNINGS, Ending	\$ 574,126	\$ 481,427

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

STATEMENT OF CASH FLOWS

	YEAR ENDED JUNE 30	
	2004	2003
CASH FLOWS FROM		
OPERATING ACTIVITIES:		
Cash received from services	\$2,954,952	\$2,489,969
Cash paid to suppliers and employees	<u>(2,811,803)</u>	<u>(2,410,224)</u>
Net cash provided by operating activities	<u>143,149</u>	<u>79,745</u>
CASH FLOWS FROM		
INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(17,649)</u>	<u>(18,110)</u>
Net cash (used by) investing activities	<u>(17,649)</u>	<u>(18,110)</u>
CASH FLOWS FROM		
FINANCING ACTIVITIES:		
New Borrowings (Long Term)	13,581	13,717
Debt Reduction (Long Term)	(3,111)	(2,562)
Borrowings from affiliates, net	25,400	(6,300)
Shareholder Loans, net	<u>9,370</u>	<u>30,400</u>
Net cash provided by financing activities	<u>\$45,240</u>	<u>35,255</u>
NET INCREASE IN		
CASH AND CASH EQUIVALENTS	170,740	96,890
CASH AND CASH EQUIVALENTS - beginning of year	<u>181,200</u>	<u>84,310</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$351,940</u>	<u>\$181,200</u>
(continued)		

See Accountant's Audit Report

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

STATEMENT OF CASH FLOWS

	YEAR ENDED JUNE 30	
	2004	2003
Schedule reconciling net income to net cash flow (used in)/ provided by operating activities:		
Net income	\$ 92,699	49,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on obsolete assets	-0-	35,323
Depreciation	21,263	27,503
(Increase) in accounts receivable	(40,326)	(35,779)
(Increase)/Decrease in other receivables	(535)	(577)
Decrease/(Increase) in refundable income taxes	2,038	6,782
Decrease/(Increase) in prepaid expenses	(6,422)	1,862
(Decrease)/Increase in accounts payable	13,009	(3,839)
(Decrease)/Increase in accrued liabilities	61,423	(810)
 Net cash provided by operating activities	 \$ <u>143,149</u>	 <u>79,745</u>
Income Tax paid	\$ <u>25,315</u>	<u>11,480</u>
 Interest paid	 <u>\$ 1,085</u>	 <u>120</u>

See Accountant's Audit Report

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

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 charged 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 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 paid.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (continued)

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.

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, 2004 and 2003, 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, 2004 and 2003, the Company had uninsured cash balances of \$226,152 and \$26,748.

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (continued)

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 TANF. \$348,194 of federal funding, or 100% of the program's total funding, was expended during the year ending 6/30/04. The waiver program has been determined to be a major program for the company.

2. Related Party Transactions

During the years ended June 30, 2004 and 2003, 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 \$151,200 for both years ending June 30, 2004 and 2003.

As described in Note 3, the Company rented office space from The Harmony Center, Inc. for the years ended June 30, 2004 and 2003. The amount of rental expense incurred by the Company under these lease agreements totaled \$18,000 and \$18,000, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

2. Related Party Transaction (continued)

As of June 30, 2004 and 2003, the Company owed The Harmony Center, Inc. \$35,647.

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 \$24,000 for the year ending June 30, 2004 and \$19,991.04 for the year ending June 30, 2003. The \$2,000 June rent is outstanding at year end; also, during the year ending 6/30/03 the Company paid \$8,300 of LHRC, Inc.'s Deferred Compensation plan payments for employees that were covered under the plan, but also worked for LHRO, Inc. The full balance of \$8,300 is paid in full as of 6/30/04.

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 6/30/04 and 6/30/03 were \$84,000 and \$84,000, respectively.

The Company has advanced funds to the shareholders in the form of loans totaling \$37,995 and \$47,635 as of June 30, 2004 and 2003, \$20,773 of the original principal is evidenced by promissory note (\$20,773 @ 1.53% - 1/07 maturity).

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

3. Operating Leases

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

<u>Lessor</u>	<u>Terms</u>
Harmony Center, Inc. (3970 Louisa St. - New Orleans Recreation)	One year lease, commencing 7/1/03, terminating 6/30/04, \$500 monthly rental. The lease has been renewed for a one year period commencing 7/1/04.
LA Health & Rehab Center, Inc. (1033 N. Lobdell - Administrative Office)	1 year lease, commencing 7/1/03, terminating 6/30/04, \$2,000 monthly rental. The lease is renewed annually for one year periods commencing 7/1/04 at a \$2,000 monthly fee.
Harmony Center, Inc. (4914 McClelland - Social Detox)	One year lease, commencing 7/1/03, terminating 6/30/04, \$1,000 monthly rental. The lease has been renewed for a one year period commencing 7/1/04.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

3. Operating Leases (continued)

Xerox Corporation (Social Detox)	5 year lease, commencing 2/23/02, terminating 1/23/07, \$280 base charge plus .0135 cents per copy.
Xerox Corporation (1033 Lobdell - Downstairs Administration Office)	5 year lease, commencing 4/1/02, terminating 3/31/07 \$446.48 base charge.
Xerox Corporation (1033 Lobdell- Upstairs)	5 year lease, commencing 7/1/03, terminating 6/30/08 \$530.93 base charge.

Future Annual Minimum Payments:

	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/08</u>	_____
Louisiana Health & Rehab Center (Admin. Office)	\$24,000	\$	\$	\$	
Harmony Center (New Orleans Rec)	6,000				
Harmony Center (Social Detox)	12,000				
Xerox Corp.	6,371	6,371	6,371	6,371	
Xerox Corp. (Admin Office)	6,371	6,371	6,371	6,371	
Upstairs Xerox Corp	3,360	3,360	1,960	-0-	
(Admn. Office)	<u>5,358</u>	<u>5,358</u>	<u>4,018</u>	<u>-0-</u>	
Downstairs Totals	<u>\$57,089</u>	<u>\$15,089</u>	<u>\$12,347</u>	<u>\$6,371</u>	

*The total of minimum future rental payments is \$90,896.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

3. Operating Leases (continued)

Total rent expense under the above-described leases for the years ended June 30, 2004 and 2003 was 66,228 and \$46,552 respectively.

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 67% of the Company's revenue at 6/30/04 and 65% at 6/30/03. This program is located in Lafayette, LA.

<u>Program</u>	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Baton Rouge Mental Health	\$ 165,100	\$ 241,227
Baton Rouge Waiver	335,715	288,820
Lafayette Waiver	2,009,662	1,473,638
New Orleans Recreation	112,404	112,461
Social Detox	<u>221,198</u>	<u>258,403</u>
 Total State of LA programs	 \$2,844,079	 2,374,549
 Other revenues - Harmony Center	 \$ <u>151,200</u>	 \$ <u>151,200</u>
 Total revenue	 \$ <u>2,995,279</u>	 \$ <u>2,525,749</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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 Bank One 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, 2004, or the subsequent anniversary date thereafter.

6. **Retirement Plan**

The Company has adopted a simple IRA plan under section 408(p) of the internal revenue code, effective for the pay period ending 3/9/01. The Company has chosen a 2% matching option. All company matching contributions are paid in as of 6/30/04.

	<u>YE 6/30/04</u>	<u>YE 6/30/03</u>
Employee Deferrals	\$4,680	\$4,970
Employer Contribution	\$3,608	\$4,292
Matching IRA liability due	\$ -0-	\$ -0-

7. **Accounts Receivable-Grants & Contracts**

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

	<u>6/30/04</u>	<u>6/30/03</u>
LA Dept of Health & Hospitals	\$280,173.99	202,813.62
Capital Area Human Services	-0-	24,434.00
Harmony Center	-0-	12,600.00
	<u>\$280,173.99</u>	<u>239,847.62</u>

*\$269,314 of the accounts have been subsequently collected for the 6/30/04 year ending.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
8. <u>Long Term Debt</u>		
Hancock Bank note; bearing interest @ 10.75% payable in 48 payments of \$291.85; maturing on 5/12/07. A 2001 Ford van serves as collateral.	\$8,737	11,155
Bank One note, bearing interest @ 10.75%, payable in 36 payments of \$424.79; maturing on 4/16/04. A 2003 Ford Van serves as collateral.	12,888	-0-
Total	21,625	11,155
Current Maturity of Long Term Debt	<u>(7,025)</u>	(2,420)
	\$ <u>14,600</u>	8,735
Subsequent Maturities:		
@ 6/30/06	7,642	
@ 6/30/07	6,658	
@ 6/30/08	-0-	
Total	<u>\$14,600</u>	

LA Health and Rehabilitation Options, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2004

	Baton Rouge Mental Health Rehab	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
REVENUES	\$ -	\$ 316,280	\$ 335,735	\$ 2,009,662	\$ 112,404	\$ 2,995,279
OPERATING EXPENSES						
Advertising and Promotion	1,080	496	191	874	58	3,138
Automobile Expense	-	-	-	223	268	491
Bank Service Charges	3,639	-	366	298	124	4,427
Client Cost	-	98	177	3,786	-	4,061
Conference	437	470	280	390	-	1,577
Contract Outside Services	10,657	1,874	25	1,141	720	19,662
Contributions	-	-	-	-	-	-
Depreciation Expense	21,263	-	-	-	-	21,263
Dues and Subscriptions	199	-	135	-	-	334
Employee Benefits						
Health Insurance	4,902	9,730	11,757	35,449	13,307	78,563
Retirement Matching Contributio	-	240	727	1,789	513	3,604
Equipment Purchase	-	-	-	-	891	891
Equipment Rental	-	-	-	1,313	-	1,313
Insurance	19,800	2,483	2,301	15,630	1,586	44,969
Interest Expense	1,085	-	-	-	-	1,085
Lease Expense	21,429	-	-	8,033	877	34,740
Licenses and Permits	25	155	625	1,205	640	2,650
Management Fees	79,000	-	-	-	-	79,000
Miscellaneous	7,854	18	68	457	(538)	7,853
Office Supplies	14,327	691	774	6,343	338	24,509
Payroll Expenses						
FICA Matching Tax	9,949	18,224	16,725	96,903	4,148	159,355
FUTA/SUTA Tax	2,618	3,862	4,248	25,787	985	41,603
Wages	-	20,893	20,677	39,308	18,159	127,254
Wages-Director	-	216,758	199,684	1,225,844	156,716	1,962,962
Wages-Other	138,027	-	-	-	-	-
Postage and Delivery	985	116	74	1,251	238	2,665

See Accountant's Audit Report

SUPPLEMENTAL INFORMATION

LA Health and Rehabilitation Options, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2004

	Administration	Baton Rouge Mental Health Rehab	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
REVENUES	\$ -	\$ 316,280	\$ 335,735	\$ 2,009,662	\$ 112,404	\$ 221,198	\$ 2,995,279
OPERATING EXPENSES							
Advertising and Promotion	1,080	496	191	874	439	58	3,138
Automobile Expense	-	-	-	223	-	268	491
Bank Service Charges	3,639	-	366	298	124	-	4,427
Client Cost	-	98	177	3,786	-	-	4,061
Conference	437	470	280	390	-	-	1,577
Contract Outside Services	10,657	1,874	25	1,141	720	5,245	19,662
Contributions	-	-	-	-	-	-	-
Depreciation Expense	21,263	-	-	-	-	-	21,263
Dues and Subscriptions	199	-	135	-	-	-	334
Employee Benefits							
Health Insurance	4,902	9,730	11,757	35,449	3,416	13,307	78,563
Retirement Matching Contributio	-	240	727	1,789	513	336	3,604
Equipment Purchase	-	-	-	-	-	891	891
Equipment Rental	-	-	-	1,313	-	-	1,313
Insurance	19,800	2,483	2,301	15,630	3,169	1,586	44,969
Interest Expense	1,085	-	-	-	-	-	1,085
Lease Expense	21,429	-	-	8,033	877	4,402	34,740
Licenses and Permits	25	155	625	1,205	-	640	2,650
Management Fees	79,000	-	-	-	-	-	79,000
Miscellaneous	7,854	18	68	457	(6)	(538)	7,853
Office Supplies	14,327	691	774	6,343	338	2,035	24,509
Payroll Expenses							
FICA Matching Tax	9,949	18,224	16,725	96,903	4,148	13,405	159,355
FUTA/SUTA Tax	2,618	3,862	4,248	25,787	985	4,104	41,603
Wages							
Wages-Director	-	20,893	20,677	39,308	28,216	18,159	127,254
Wages-Other	138,027	216,758	199,684	1,225,844	25,934	156,716	1,962,962
Postage and Delivery	985	116	74	1,251	238	-	2,665

See Accountant's Audit Report

LA Health and Rehabilitation Options, Inc.
Schedule of Operating Income-By Program
Year Ended June 30, 2004

	Administration	Baton Rouge Mental Health Rehab	Baton Rouge Waiver Services	Lafayette Waiver Services	New Orleans PTR	Social Detox	TOTAL
Printing and Reproduction	-	-	-	-	-	-	-
Professional Development	533	-	-	-	-	-	533
Professional Fees	9,853	306	699	4,850	43	5,560	21,311
Recreation Activities	3,340	384	147	-	18,168	-	22,039
Rent	24,000	-	-	501	5,500	12,000	42,001
Repairs	343	-	-	-	-	92	435
Supplies-Food	38	(0)	30	24	-	33,989	34,081
Supplies-Janitorial	-	-	-	-	-	1,361	1,361
Taxes-Other	1,023	392	289	-	12	258	1,974
Telephone	13,125	1,297	1,422	9,958	5,138	7,933	38,873
Training	234	58	68	15,660	-	15	16,034
Travel & Ent	65	-	15	29	-	27	136
Meals & Entertainment	1,115	21,055	3,763	22,076	-	-	48,009
Mileage	265	-	-	1,096	1,177	-	2,538
Travel	-	-	-	-	-	-	-
Utilities	12,953	-	-	-	8,831	-	21,784
Total Operating Expense	404,163	299,600	265,268	1,520,217	107,980	281,851	2,879,078
Central Office Allocation	(404,163)	48,926	43,319	248,257	17,633	46,027	-
Total Expenses	-	348,526	308,587	1,768,474	125,613	327,878	2,879,078
Net Operating Income/(Loss), Before Taxes	-	(32,245)	27,148	241,188	(13,209)	(106,680)	116,201

See Accountant's Audit Report

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<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:			
Pass-through programs from:			
State Department of Health & Hospitals			
Community Mental Health Services (Note 1)	93.958	333	112,404
Prevention & Treatment of Substance Abuse	93.959	25A1065	<u>235,790</u>
Total pass-through programs			<u>348,194</u>
Total U.S. Department of Health and Human Services			348,194
Total expenditures of federal awards			<u>\$348,194</u>

See accompanying Notes to Financial Statements.

GORDON A. GAGLIANO, CPA
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263 Third Street, Suite 309
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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 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 year ended June 30, 2004 and 2003, and have issued our report thereon dated December 27, 2004. We conducted our audit in accordance with generally accepted 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.

Compliance

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 required to be reported under Government Auditing Standards.

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 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.

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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.

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

December 27, 2004

Gordon A. Gagliano
(A Professional Accounting Corporation)
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Baton Rouge, LA 70801

**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 U.S. 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, 2004. 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 respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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 & Rehabilitations 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.

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 27, 2004

**LOUISIANA HEALTH & REHABILITATION OPTIONS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITOR'S 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 are 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)
8. The threshold used for distinguishing between Type A and B programs was \$500,000.
9. Louisiana Health & Rehabilitation Options, Inc. qualified as a low-risk auditee.