LOUISIANA HEALTH & REHAB CENTER, INC.

FINANCIAL STATEMENTS

06/30/04

&

06/30/03

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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 of
Louisiana Health & Rehab Center, Inc.

We have audited the accompanying statement of financial position of Louisiana Health & Rehab Center, Inc.(a Louisiana non-profit corporation) as of June 30, 2004 and 2003, and the related statements of activities 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 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 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 & Rehab Center, Inc. as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 24, 2004, on our consideration of Louisiana Health & Rehab Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Louisiana Health & Rehab Center, Inc. taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statement of the Louisiana Health & Rehab Center, Inc. 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 also not a required part of the financial statements of the Louisiana Health & Rehab Center, Inc. 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 24, 2004

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2004 and June 30, 2003

	Jun 30, 2004	Jun 30, 2003
ASSETS		
Current Assets		
Cash & Cash Equivalents	$ 209,615	$ 455,313
Accounts Receivable	174,750	153,875
Prepaid Insurance	21,524	31,697
Total Current Assets	405,889	640,885
Fixed Assets		
Building	180,342	180,342
Accum. Depreciation	(11,836)	(4,509)
Furniture & Fixtures	29,742	8,703
Accum. Depreciation	(4,378)	(1,106)
Leasehold Improvements	41,890	21,000
Accum. Depreciation	(11,773)	(4,200)
Office Equipment/Computers	22,398	22,398
Accum. Depreciation	(6,718)	(2,239)
Vehicles	103,174	103,073
Accum. Depreciation	(46,863)	(32,897)
Land	60,000	20,000
Net Fixed Assets	355,978	310,564
Other Assets		
Banc One Securities	495,087	-
Defer Comp. Plan (457f)	-	34,500
Deposits-Security	872	872
Due from employee	113	-
Due from LHRO	35,700	2,000
Total Other Assets	531,772	37,372
TOTAL ASSETS	$ 1,293,638	$ 988,822

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2004 and June 30, 2003

	Jun 30, 2004	Jun 30, 2003
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable	$ 18,950	$ 5,603
Current Maturities of L.T. Debt	28,337	24,481
Due to Clients	1,447	1,359
Due to LHRO	-	8,300
Garnishment Payable	-	98
Progressive-Insurance Payable	17,259	20,121
L/P Bank One -Van	4,128	32,491
N/P-Hibernia (Van)	5,664	-
Accrued Taxes	1,840	-
Accrued Wages	24,042	5,666
FICA Tax Payable	4,932	-
FWH Tax Payable	2,541	-
Simple IRA	-	669
SUTA Tax Payable	5,110	8,691
SWH Tax Payable	1,407	4,434
Total Current Liabilities	115,658	111,913
Long Term Liabilities		
N/P-Bank One(Land)	34,084	-
N/P-Bank One(Bldg)	100,279	119,652
N/P-Ford Credit(Van)	11,518	17,349
N/P-Hibernia Bank(Van)	-	11,729
N/P-Wells Fargo	10,260	14,365
Current Maturity of LT Debt	(28,337)	(24,481)
Total Long-Term Liabilities	127,803	138,613
Total Liabilities	243,461	250,526
NET ASSETS		
Unrestricted Net Assets	738,296	285,317
Net Income	311,881	452,979
Common Stock (-0- shares Authorized & Issued)	-	-
Total Net Assets	1,050,177	738,296
TOTAL LIABILITIES & NET ASSETS	**$ 1,293,638**	**$ 988,822**

Louisiana Health and Rehab Center, Inc.
Statement of Activities
Years Ended June 30, 2004 and June 30, 2003

	June 30, 2004	June 30, 2003
UNRESRTICTED NET ASSETS		
Unrestricted Revenues & Gains		
Program Services	$ 1,501,087	$ 1,353,431
Other Services/Reimbursed Expenses	11,332	-
Interest Income	6,069	3,196
Dividend Income	1,515	-
Rental Income	33,121	24,000
Contributions	5,157	1,095
Total Unrestricted Revenues & Gains	1,558,280	1,381,723
Net Assets Released From Restrictions:	-	-
Total Unrestricted Revenues & Gains & Other Support	1,558,280	1,381,723
Expenses		
Program Services	1,016,140	764,934
Supporting Services (Management & General)	230,258	163,811
Total Expenses	1,246,398	928,744
INCREASE IN UNRESTRICTED NET ASSETS	**311,881**	**452,978**
TEMPORARILY RESTRICTED NET ASSETS		
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-
PERMNANENTLY RESTRICTED NET ASSETS		
INCREASE IN PERMNANENTLY RESTRICTED NET ASSETS	-	-
INCREASE IN NET ASSETS	311,881	452,978
NET ASSETS, BEGINNING OF YEAR	738,296	285,317
NET ASSETS, END OF YEAR	**$ 1,050,177**	**$ 738,296**

See Accountant's Audit Report

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

STATEMENT OF CASH FLOWS
YEARS ENDING JUNE 30, 2004 and 2003

	UNRESTRICTED	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$311,881	452,978
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized loss	6,428	
Depreciation and amortization	36,617	28,635
(Increase)decrease in operating assets:		
Accounts Receivable	(20,875)	(78,217)
Prepaid expenses	10,173	(25,556)
Defer compensation	34,500	(34,500)
Increase(decrease) in operating liabilities:		
Accounts Payable	10,486	23,163
Due to clients	88	(1,355)
Accrued wages	16,547	(166)
Accrued tax	2,607	12,777
Accrued retirement benefits	(669)	669
Contributions restricted for long-term purpose	-0-	-0-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$407,783	378,428
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment on Investments	($500,000)	
Proceeds from property and equipment loans	40,000	44,225
Purchase of property and equipment	(81,828)	(68,637)
Payments on notes payable	(69,653)	(48,048)
NET CASH USED BY INVESTING ACTIVITIES	$ (611,481)	(72,460)

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

STATEMENT OF CASH FLOWS
YEARS ENDING JUNE 30, 2004 AND 2003

	UNRESTRICTED	
	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Due from LHRO, Inc.	$ (42,000)	(6,300)
NET CASH USED BY FINANCING ACTIVITIES	$ (42,000)	(6,300)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ (295,698)	312,268
BEGINNING CASH AND CASH EQUIVALENTS	455,313	143,045
ENDING CASH AND CASH EQUIVALENTS	$209,615	455,313
Supplemental Data:		
Interest paid	$ 15,242	16,280

See Accountant's Audit Report

LOUISIANA HEALTH AND REHAB CENTER, 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. The company began providing services on 7/1/00. 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 wholly funded by 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. The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

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, equipment, and vehicles; 40 years for buildings), using the straight-line method.

1. **Summary of Significant Accounting Policies (continued):**

Property and Equipment (continued)

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets at that time. Currently, there are no restricted assets as of 6/30/04 and 6/30/03.

Income Taxes

The organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue code and classified by the Internal Revenue Service as other than a private foundation. There was no unrelated business income for the years ending.

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.

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 and 2003

1. **Summary of Significant Accounting Policies (continued):**

Concentrations of Credit Risk

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, 2004 and 2003, the Company had uninsured cash balances of $73,732 and $344,989 respectively.

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.

Financial Statement Presentation

The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Organization does not use fund accounting. All of the company's net assets are unrestricted as of 6/30/04 and 6/30/03.

Contributions

The organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The company received $5,156.60 and $1,095.21 of unrestricted contributions for years ending 6/30/04 and 6/30/03, respectively.

1. **Summary of Significant Accounting Policies (continued):**

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No contributions were received for years ending 6/30/04 and 6/30/03, or were any donor promises made.

Contributed Services

During the years ended June 30, 2004 and 2003, the value of contributed services meeting the requirements for recognition in the financial statements was -0- and has not been recorded.

Allocation of Administrative Expenses

General and administrative overhead expenses are prorated based upon the percentage of each program's direct expenses to total direct expenses. At 6/30/04 and 6/30/03, these expenses totaled $230,258 and $163,811, respectively.

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 and 2003

2. **Related Party Transactions**

During the year ended June 30, 2004, the Company leased premises from Temple Properties, LLC, of which the company's executive director is a member. The amount of rental expense incurred by the Company under this lease agreement totaled $32,400 and $32,400 for the years ended June 30, 2004 and 2003, respectively.

During the year ended June 30, 2004, the Company received rents from Louisiana Health & Rehabilitation Options, Inc., whose President and 50% owner is the executive director of LHRC, Inc. The rent balance due to the Company for years ended 6/30/04 is $2,000, and the total rent payments received for years ending 6/30/04 and 6/30/03, $24,000 and 22,000, respectively A one year lease agreement was executed between the parties through 6/30/04 ($2,000 monthly rental fee); also, during the year ended 6/30/03, LHRO, Inc. paid $8,300 of the company's deferred compensation plan payments for employees who were covered by the plan but were also employed by LHRO, Inc. The full balance of $8,300 is outstanding @ 6/30/03, but was paid in full @ 6/30/04.

3. **Operating Leases**

The Company leases the following facility under the following lease agreement:

Lessor	Terms
Temple Properties, LLC (Reality House) N. Blvd. BR,LA	One year term, commencing 7/1/03, terminating 6/30/04, $2,000 monthly rental. The lease has been renewed for a one year period commencing 7/1/04.
Temple Properties, LLC (Reality House - Expansion) N. Blvd. BR,LA	One year term, commencing 7/1/03, terminating 6/30/04, $700 monthly rental. The lease has been renewed for a one year period commencing 7/1/04.

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 and 2003

3. **Operating Leases (continued)**

Agape Outreach Ministry (Awakenings) Jackson, LA	One year term, commencing 3/1/04, terminating 2/28/05 & $3,000 monthly rental. There is a 5 year option renewal at 2/28/05.

Future Annual Payments:

		6/30/05
Agape Outreach Ministry		$24,000
Temple Properties, LLC		32,400
	Total	$56,400

*There are no leases extending beyond 6/30/05.

Total rent expense under the above-described leases for the year ended June 30, 2004 was $44,400.

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

4. Program Revenues/Concentrations

The Company provides care to clients in the following therapeutic program which is funded by several State of Louisiana agencies through the Department of Health and Hospitals. The Reality House program accounts for a significant percentage of the company's revenue, as listed below in brackets:

Program	Year Ended 6/30/04 Recognized Support		6/30/03	
Reality House/Expansion	$830,152	(55%)	$861,744	(64%)
Children's Choice	113,855		42,876	
Awakening	106,203		-0-	
BR Waiver	182,496	(12%)	17,592	
CAR	80,826		187,500	(12%)
CRI/Job	43,061		110,863	
Teen Pregnancy	122,187		132,856	
Capital Area	22,307		-0-	
Total Program Revenue	$1,501,087		$1,353,431	

Note: Programs CRI/JOB and Car have been cancelled due to State Budget cuts.

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

5. Summary of Grants/Contract Funding

The company's programs were primarily funded through the following grants and contracts for the year ended 6/30/04:

CFDA#	Grant/ Contract#	Contract Period	Contract Total	Recognized Support@ 6/30/04
93.959	* 2SA1050	7/1/03-9/30/03	$698,610	
93.959	* 2SA1050A		192,720 891,330	830,152
N/A	9507 * 9505 (PCA)	7/1/03-6/30/04	13,686 (per client)	182,496
N/A	** 4502091 (Medicaid)		Cost Reimbursement	$113,855
93.558	*** 590313	10/1/02-9/30/03	250,000	80,826
93.558	*** 590066	10/1/02-9/30/03	153,787	43,061
93.558	*** 590129	10/1/03- 8/31/04	122,000	122,187
N/A	TIPS * 020124698	3/19/04-6/30/04	$109.00 (Per Child/Per Day)	$ 106,203
93.959	* 298	2/16/04-6/30/04	26,513	$ 22,307

Funding Sources:
* Capital Area Human Services
** Department of Health & Hospitals
*** Office of Family Support
**** Department of Social Services

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

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

As of 6/30/04, accounts receivable from grants and contracts was composed of:

	2004	2003
Capital Area Human Services	$67,785	$81,427
Dept. of Health & Hospitals	45,727	2,568
Office of Social Services	39,149	-0-
Office of Family Support	22,089	69,880
	$174,750	$153,875

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

7. **Short Term Debt**

	6/30/04	6/30/03
N/P Imperial Finance 14.179% annual interest rate; monthly payment of $306.24; maturing on 7/10/03; no collateral on debt; financing for professional liability insurance.	$ -0-	306
N/P Progressive Nine monthly installments of $3,455.89 with a $5 monthly installment fee; maturing on 11/17/04; no collateral on debt; financing for auto insurance	17,260	19,815
L/P Bank One (Capital Lease) 6.765% annual interest rate; monthly payment of $2,590.65; maturing on 6/14/03; (2) 2002 Chevy vans serve as collateral	4,128	32,491
Hibernia National Bank 12.5% annual interest rate; monthly payment of $599.28 maturing on 4/23/05, 2000 Ford Van serves as collateral.	5,664	-0-
Totals:	$27,052	$52,612

8. **Long Term Debt**

	6/30/04	6/30/03
N/P Hibernia National Bank 12.5% annual interest rate; monthly payment of $599.28; maturing on 4/23/05; 2000 Ford E350 vehicle serves as collateral on the loan	-0-	11,729
N/P Bank One 6.5% annual interest rate; monthly payment of $1,331.84; maturing on 11/19/06, at which time the balance will be due. Company building and property @ 1033 N. Lobdell serve as collateral on the note	100,279	119,652
N/P Ford Credit 12.5% annual interest rate; monthly payment of $641.39; maturing on 2/15/06. 2001 Ford E350 vehicle serves as collateral on the loan	11,517	17,348
N/P Wells Fargo Financial 9.0% projected interest rate on this capitalized lease; monthly payment of $436.00; maturing on 8/19/06. Lease does not have option to purchase	10,260	14,365
N/P Bank One 5.5.% annual interest rate monthly payment of $765.70 maturing on 8/8/08. A lot on North Lobdell serves as colleral on the loan	34,084	-0-
Totals:	156,140	163,094
Current Maturity of Debt	(28,337)	(24,481)
Total	$127,803	$138,613

LOUISIANA HEALTH AND REHAB CENTER, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Subsequent Debt Maturity	
6/30/06	$ 28,110
6/30/07	89,333
6/30/08	8,832
6/30/09	1,528
Total	$127,803

9. **Retirement Plan**

The Company has adopted a Simple IRA plan under Section 408(P) of the Internal Revenue Code, effective 7/1/02. The Company has chosen a 2% matching option.

	6/30/04	6/30/03
Employee Deferrals	$ 4,687	$4,807
Employer Contributions	$ 3,447	$3,871
Matching IRA Liability Due	$ -0-	$ 264

10. **Deferred Compensation Plan**

The Company is participating in a nonqualified deferred compensation plan under IRS Code Section 457(f). This plan covers the Company's key employees who have been employed for at least one year. The employees full vesting will occur at: the latter of age 55 or the 10 year anniversary of the employee's participation commencement; death of participant; and total disability of the participant. Each participant has a variable life insurance policy which is owned by the Company until the participant becomes vested. Equitable serves as trustee of the plan. The plan was terminated in January of 2004.

	Year Ended 6/30/04	Year Ended 6/30/03
Premium paid	$ 11,950	$35,500
Insurance cost	$ 2,910	3,272
Administrative cost	$ 11,421	3,390
Unrecognized Gain/Loss	$ -0-	2,064
Fair Market Value @ year end	$ -0-	29,902
Reorganized loss on Investment Liquidation	$ 1,502	-0-

11. **Bank One Securities**

The company has invested $500,000 in Bank One Securities, which consist of 100% of mutual funds. The investments have a unrealized loss of $6,428 @ 6/30/04. These investments are to serve as a source of working capital, as well as any further construction needs. The fair market value of the securities @ 6/30/04 is as follows:

- -Franklin Income Fund =$74,264
- -Franklin Govt. Sec.(Class A) =$209,854
- -Franklin Floating Fund(Class A) =$210,969

SUPPLEMENTAL INFORMATION

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2004

	PROGAM SERVICES									
	ADMIN-ISTRATION	AWAKEN-INGS	BATON ROUGE WAIVER	CAPITAL AREA	CAR	CHILDREN CHOICE	REALITY HOUSE	CRI/JOB	TEEN PREG-NANCY	TOTAL
Insurance										
506 · Worker's Compensation Expense	$ 1,491.96	$ 935.26	$ 1,068.86	$ 167.01	$ 701.44	$ 1,080.00	$ 4,086.17	$ 356.29	$ 1,247.01	$ 11,134.00
507 · Liability Insurance	765	893	893	893	893	893	893	893	1,506	8,524
508 · Van Insurance Expense	5,642	5,642	-	-	5,642	-	16,925	-	-	33,850
Insurance - Other	1,007	-	-	-	-	-	150	-	-	1,157
Total Insurance	8,905	7,470	1,962	1,060	7,236	1,973	22,055	1,250	2,753	54,665
Interest Expense										-
509.10 · Loan Interest	7,032	730	-	-	730	-	2,211	-	-	10,702
Total Interest Expense	7,032	730	-	-	730	-	2,211	-	-	10,702
Payroll Expenses										-
502 · Wages										-
500 · Directors	-	2,686	5,593	-	2,207	881	29,130	12,963	21,947	75,407
501 · Administrator	64,252	-	-	-	-	-	-	-	-	64,252
502 · Wages - Other	30,832	61,200	65,247	11,667	39,581	68,467	229,730	8,366	56,878	571,970
Total 502 · Wages	95,085	63,886	70,840	11,667	41,789	69,349	258,860	21,329	78,825	711,629
503.10 · FICA Matching Tax	7,274	5,922	5,912	724	3,197	5,296	19,803	1,632	6,030	55,790
503.20 · SUTA Tax	494	1,582	1,573	291	415	1,309	3,711	96	1,170	10,639
503.30 · Federal/State Taxes	15	-	-	-	-	-	-	-	-	15
Payroll Expenses - Other	218	297	231	-	-	665	2,219	-	17,689	21,319
Total Payroll Taxes	8,001	7,801	7,716	1,014	3,612	7,270	25,732	1,727	24,889	87,763
Rent										-
511 · Building	-	12,000	-	-	-	-	32,400	-	-	44,400
512 · Equipment	-	465	149	-	-	-	-	-	654	1,268
Rent - Other	-	-	-	-	-	-	-	-	-	-
Total Rent	-	12,465	149	-	-	-	32,400	-	654	45,668
Repairs										-
539.10 · Vehicle Repair	-	569	-	-	1,554	-	-	-	-	2,123
539.20 · Building Repairs	177	346	-	-	-	-	54	-	-	577
539.40 · Equipment Repairs	2,825	4,482	-	-	(156)	-	3,711	-	-	10,862

See Accountant's Audit Report

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2004

	ADMIN-ISTRATION	PROGAM SERVICES AWAKEN-INGS	BATON ROUGE WAIVER	CAPITAL AREA	CAR	CHILDREN CHOICE	REALITY HOUSE	CRI/JOB	TEEN PREG-NANCY	TOTAL
Repairs - Other	-	385	-	-	-	-	-	-	-	385
Total Repairs	3,002	5,783	-	-	1,398	-	3,765	-	-	13,948
Supplies										-
542 · Food	-	1,737	-	42	-	-	-	-	250	2,029
546 · Household Supplies	-	179	-	-	-	-	1,712	-	-	1,892
Supplies - Other	402	3,315	-	-	-	-	8,594	-	110	12,422
Total Supplies	402	5,231	-	42	-	-	10,307	-	360	16,343
Travel & Ent										-
559 · Travel	1,285	876	239	505	1,108	1,116	1,051	462	660	7,301
559.10 · Gasoline	68	1,337	10	53	5,484	-	241	-	-	7,193
559.30 · Entertainment	17	-	-	-	-	-	-	25	-	42
559.40 · Meals	101	-	-	-	-	-	-	-	-	101
Travel & Ent - Other	1,228	145	27	-	-	-	62	-	-	1,462
Total Travel & Ent	2,700	2,358	276	557	6,593	1,116	1,353	487	660	16,100
Utilities										-
593.10 · Gas and Electric	-	3,169	-	-	-	-	12,489	-	378	16,035
593.20 · Water	-	-	-	-	-	-	7,921	-	67	7,989
Utilities - Other	174	1,260	-	-	-	-	1,005	-	-	2,439
Total Utilities	174	4,428	-	-	-	-	21,416	-	445	26,462
504 · Licenses/Other Taxes	1,053	387	600	-	-	-	1,948	-	-	3,988
504.10 · Property Taxes	2,809	-	-	-	-	-	314	-	-	3,123
510 · Employee benefits										-
510.20 · Retirement Benefits	1,874	-	-	1,093	-	-	480	-	-	3,447
510 · Employee benefits - Other	2,234	1,691	-	-	45	-	8,204	242	193	12,609
Total 510 · Employee benefits	4,108	1,691	-	1,093	45	-	8,684	242	193	16,056
512.10 · Lease-Equipment	-	1,558	-	-	4,762	-	318	-	-	6,638
520 · Advertising & Promotions	668	920	-	-	318	-	58	-	-	1,964
521 · Bank Service Charges	2,488	-	-	-	-	-	-	-	-	2,488
524.10 · Subscription	381	-	-	-	-	-	-	-	-	381
524.20 · Membership and Dues	810	-	-	90	-	-	-	-	-	900
539.50 · Maintenance Equipment Contract	-	143	-	-	-	-	-	-	120	263
539.60 · Maintenance, Blg & Grounds	2,404	218	-	-	90	-	9,612	-	2,130	14,455

See Accountant's Audit Report

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2004

		PROGAM SERVICES								
	ADMIN-ISTRATION	AWAKEN-INGS	BATON ROUGE WAIVER	CAPITAL AREA	CAR	CHILDREN CHOICE	REALITY HOUSE	CRI/JOB	TEEN PREG-NANCY	TOTAL
540 · Contract for Outside Services	7,517	8,697	-	600	-	2,214	11,603	550	-	31,181
540.10 · Contract Labor	-	-	-	200	-	-	6,000	-	-	6,200
544.10 · Labortary and Drug Kit Supplies	335	-	-	-	-	-	413	-	-	748
548 · Miscellaneous	3,238	-	-	-	-	-	495	-	-	3,734
549 · *Client Expense*	-	4,890	189	188	-	11,160	2,376	-	-	18,803
550.10 · Office Equipment	24	5,279	-	809	-	-	382	-	-	6,494
550.20 · Printing and Reproduction	-	-	-	1,330	96	-	-	25	376	1,828
550.30 · Office Supplies	8,235	5,452	95	808	207	171	3,096	1,857	5,805	25,724
550.40 · Petty Cash Expense	545	587	-	-	-	-	100	-	-	1,232
552 · Postage and Delivery	156	91	-	-	-	-	-	16	283	546
554 · Professional Fees										-
544 · Finger prints/Lab	80	693	407	37	40	378	284	46	-	1,965
554.10 · Legal Fees	-	-	-	-	-	-	20	-	-	20
554.20 · Accounting	6,871	-	-	-	-	-	-	-	-	6,871
554.30 · Consulting	14,421	-	-	-	-	-	-	-	-	14,421
554.40 · Inspection Expense	-	-	-	-	-	-	775	-	-	775
554 · Professional Fees - Other	-	140	-	20	-	-	-	-	-	160
Total 554 · Professional Fees	21,371	833	407	57	40	378	1,079	46	-	24,211
554.50 · Technical Service	1,514	-	-	-	-	-	391	-	-	1,905
556 · Recreation Expense	(339)	608	-	1,586	59	(48)	657	-	6,425	8,948
556.10 · *Snacks & Refreshment*	292	-	-	-	-	-	-	-	-	292
558 · Training Expense	199	325	5	-	163	10	165	-	266	1,133
559.50 · Conference	954	-	-	135	75	-	195	-	-	1,359
565 · Management Fees	500	-	-	-	-	-	-	-	-	500
579 · Depreciation Expense	27,860	-	-	-	-	-	-	-	-	27,860
583 · Telephone	1,694	3,350	(95)	-	842	28	9,902	1,149	2,012	18,881
595 · Automobile Expense	1,545	-	-	-	-	-	3,857	-	-	5,402
597 · Program Incentives/Promotions	1,296	-	-	-	-	-	2,966	-	696	4,958
575 · Interest Expense-Rental	4,540	-	-	-	-	-	-	-	-	4,540
580 · Depreciation-Rental	8,757	-	-	-	-	-	-	-	-	8,757
TOTALS:	$ 230,258	$ 145,180	$ 82,144	$ 21,236	$ 68,056	$ 93,621	$ 442,709	$ 28,678	$ 126,892	$ 1,238,772
ADMINISTRATION ALLOCATION	(230,258)	33,147	18,755	4,848	15,538	21,375	101,077	6,547	28,971	(0)
TOTAL EXPENSES (AFTER ALLOCATION)	$ (0)	$ 178,326	$ 100,898	$ 26,084	$ 83,594	$ 114,995	$ 543,786	$ 35,225	$ 155,863	$ 1,238,772

See Accountant's Audit Report

LOUISIANA HEALTH & REHAB CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal *CFDA* Number	Pass-through Entity *Identifying* Number	*Federal* Expenditures
U.S. Department of Health and Human Services:			
Pass-through programs from:			
State Department of Health and Hospitals:			
-Community Mental Health Services	93.958	(Medicaid) 4502091	(CC)
-Prevention and Treatment of Substance Abuse	93.959	298/ 2SA1050/ 2SA1050A	(Cap. Area)
-Office of Family Support (T.A.N.F.)	93.558	590066/ 590129/ 590313	(TANF)
Department of Social Services		0202124698	(Awankening)
Total Pass-Through Programs			
Total U.S. Department of Health and Human Services			
Total expenditures of federal awards			

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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 of
Louisiana Health & Rehab Center, Inc.

We have audited the financial statements of Louisiana Health & Rehab Center, Inc. as of and for the years ended June 30, 2004 and 2003, have issued our report thereon dated December 24, 2004. 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 & Rehab Center, 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 opinon 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 & Rehab Center, 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.

GORDON A. GAGLIANO, CPA
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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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Louisiana Health & Rehab Center, Inc. in a separate letter dated December 24, 2004.

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 24, 2004

Gordon A. Gagliano
(A Professional Accounting Corporation)
263 Third Street, Suite 309
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 of
Louisiana Health & Rehab Center, Inc.

<u>Compliance</u>

We have audited the compliance of Louisiana Health & Rehab Center, 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 & Rehab Center, 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 & Rehab Center, Inc.'s management. Our responsibility is to express an opinion on Louisiana Health & Rehab Center, 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 & Rehab Center, 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 & Rehab Center, Inc.'s compliance with those requirements.

Gordon A. Gagliano
(A Professional Accounting Corporation)
263 Third Street, Suite 309
Baton Rouge, LA 70801

In our opinion, Louisiana Health & Rehab Center, 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items (See X1).

Internal Control Over Compliance

The management of Louisiana Health & Rehab Center, 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 & Rehab Center, 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.

Gordon A. Gagliano
(A Professional Accounting Corporation)
263 Third Street, Suite 309
Baton Rouge, LA 70801

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Louisiana Health & Rehab Center, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated December 24, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial staements 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 and is not a required part of the basic finanacial 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.

This report is intended solely for the information and use of the audit committee, management, Federal Audit Clearinghouse, 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 24, 2004

LOUISIANA HEALTH & REHAB CENTER, INC.
SCHEDULE OF FINDINGS & QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004

Finding (X1):

Condition: The Director of the Reality House program, has disbursement checks issued directly to herself as reimbursements of program expenditures. Check #3145 for $500 was issued on 8/15/03 and had neither a receipt or a voucher request attached to the company's payment record.

Criteria: Because of failure to follow accounting procedures that requires an approval of contribution expenditures from the proper level of authority, the accounting department has disbursed funds which has neither the proper approval nor receipt documentation of these expenditures.

Recommendation: Implemented procedures shall be followed by all directors, which requires proper approval with a voucher and the submitting of proper documentation of the expenditures. If these procedures are not followed, then the directors should not be reimbursed for any disbursements.

LOUISIANA HEALTH & REHAB CENTER, 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 & Rehab Center, 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 & Rehab Center, 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 & Rehab Center, 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: Reality House (#93.959).

8. The threshold used for distinguishing between Type A and B programs was $500,000.

9. Louisiana Health & Rehab Center, Inc. qualified as a low-risk auditee.

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263 Third Street - #309
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Tel: (225) 338-0810 Fax: (225) 338-1998

December 24, 2004

Louisiana Health & Rehab Center, Inc.
1033 N. Lobdell
Baton Rouge LA 70806

Dear Soundra T. Johnson & Board of Directors,

This management letter is a result of the company's audit for the year ending 6/30/04. The purpose of the audit was to express an opinion on the company's audited financial statements and not to provide assurance on the company's internal control. During the audit immaterial matters were noted and these matters are summarized in the letter below. None of these matters were considered to be material weaknesses. Note that the management points listed below will be reviewed and followed up on during next year's audit.

-The TANF Programs revenue for the year ending 6/30/04 had to be adjusted by $26,627 due to a combination of overbillings and not following up on claim denials timely. The accounting department should adhere to billing procedure guidlines listed in the company conntracts. I would also suggest performing at least a quarterly internal audit reagrding billings and denied claims.

-There was $18,120 of Leasehold Improvements made to the property housing the Awakenings program in Jackson, LA. for the year ending 6/30/04, but this disbursement was not listed in the company minutes. After review of the invoice and conversations with corporate board members, it appears that the expenditures were both necessary and ratified by the board but was not documented in corporate minutes. Future substantial purchases (See Circular A-122) needs to be ratified by the board of directors and documented in corporate minutes.

Sincerely,

Gordon Gagliano, CPA

Louisiana Health & Rehab Center, Inc.
Corrective Action Plan
Year Ending June 30, 2004

December 30, 2004

Louisiana Legislative Auditor

Name & Address of Independent Public Accounting Firm: Gordon Gagliano, CPA (APAC)
263 Third Street-#309
Baton Rouge, LA 70801

Audit Period: 7/1/03 through 6/30/04

The findings from the 6/30/04 schedule of findings and questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Louisiana Health & Rehab Center submits the following corrective action plan for the year ended 6/30/04:

-FINDING (X1): Lack of authorization and documentation of program expenditures for the Reality House Program

-RECOMMENDATION: Company accounting procedures should be followed, which requires a voucher request from the program director, approval of the purchase from the proper level of authority, and proper documentation of these expenditures which will be evidenced by a check stub attached to the corresponding invoice.

-ACTION TAKEN: Since the exit conference, I have reviewed three purchases for the Reality House program. All company procedures listed above have been followed and proper documentation was on file. (See Attached)

I have had a meeting with the program's director and expressed the importance of following the company's accounting procedures in place. The program director assured myself and the company accountant that she will not deviate from company policy in the future. I also stressed to the company's accountant her role in insuring that the company's accounting policies and procedures are not violated.

If there are any questions regarding this plan, please call Soundra T. Johnson @225 231-2490.

Sincerely,

Soundra T. Johnson

Soundra T. Johnson
Executive Director