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LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2010 and 2009

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

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June 30, 2010 and 2009

FAULK WINKLER LLC
Certified Public Accountants • Business Advisors

INDEPENDENT AUDITORS' REPORT

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.** (Company) (an S-Corporation) as of June 30, 2010 and 2009, and the related statements of operations and changes in 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 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. 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 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 in the first paragraph present fairly, in all material respects, the financial position of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.** as of June 30, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of the **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Faulk + Winkler LLC

Certified Public Accountants

Baton Rouge, Louisiana
November 30, 2010

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Exhibit A

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

BALANCE SHEETS

June 30, 2010 and 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash	$ 523,428	$ 781,379
Restricted cash	31,570	38,126
Investments	30,301	55,270
Receivables, net	556,844	688,593
Prepaid expenses and other	37,338	44,545
Total current assets	1,179,481	1,607,913
PROPERTY AND EQUIPMENT, net	160,043	177,465
DUE FROM RELATED PARTIES	33,129	25,930
OTHER	3,204	3,060
Total assets	$ 1,375,857	$ 1,814,368

LIABILITIES AND STOCKHOLDER'S EQUITY

	2010	2009
CURRENT LIABILITIES		
Accounts payable	$ 30,330	$ 34,455
Accrued expenses	244,495	382,399
Amounts held for others	25,680	38,126
Deferred revenue	27,382	32,416
Total liabilities	327,887	487,396
STOCKHOLDER'S EQUITY		
Common stock - no par value, 1,000 shares issued and outstanding	1,000	1,000
Retained earnings	1,046,970	1,325,972
Total stockholder's equity	1,047,970	1,326,972
Total liabilities and stockholder's equity	$ 1,375,857	$ 1,814,368

The accompanying notes to the financial statements are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS

For the years ended June 30, 2010 and 2009

REVENUE	**2010**	**2009**
Revenue:		
Lafayette Waiver Services	$ 3,976,036	$ 4,165,417
Baton Rouge Waiver Services	1,424,468	1,013,791
Lafayette Waiver Services - ODD Sil	55,304	74,142
Social Detox	266,539	234,519
Social Detox - Medical Supported	431,191	730,814
Rent	7,434	4,717
Other	80,262	96,674
Investment gain (loss), net	2,491	(8,474)
Total support and revenue	6,243,725	6,311,600
EXPENSES		
Payroll	5,399,323	4,956,179
Occupancy	265,562	180,180
Direct services	247,641	249,546
Bad debt	80,800	64,536
Professional	54,226	53,789
Depreciation	33,493	34,647
Supplies	31,931	40,507
Management fee	9,000	104,167
Other	75,639	90,470
Total expenses	6,197,615	5,774,021
Net income	46,110	537,579
RETAINED EARNINGS		
Beginning of year	1,325,972	965,993
Distributions	(325,112)	(177,600)
End of year	$ 1,046,970	$ 1,325,972

The accompanying notes to the financial statements are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 46,110	$ 537,579
Adjustments for non-cash items:		
Depreciation	33,493	34,647
Unrealized investment (gain) loss, net	(759)	10,044
Change in operating assets and liabilities:		
Receivables	131,749	(375,479)
Prepaid expenses and other assets	7,063	(37,724)
Accounts payable and other current liabilities	(159,509)	178,444
Net cash provided by operating activities	58,147	347,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(16,071)	(107,708)
Purchase (sale) of investments	25,728	(5,420)
Net cash provided (used) by investing activities	9,657	(113,128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholder and net change in amount due to stockholder	(325,112)	(234,693)
Advances from related parties, net	(7,199)	30,459
Net cash used by financing activities	(332,311)	(204,234)
Net (decrease) increase in cash	(264,507)	30,149
CASH, including restricted cash		
Beginning of year	819,505	789,356
End of year	$ 554,998	$ 819,505
CASH		
Cash	$ 523,428	$ 781,379
Restricted cash	31,570	38,126
Total cash	$ 554,998	$ 819,505

The accompanying notes to the financial statements are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operations

Louisiana Health and Rehabilitation Options, Inc. (LHRO) is a Louisiana corporation whose purpose is to provide therapeutic psychiatric programs to eliminate inappropriate and maladaptive behaviors. Their services 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 through the Department of Health and Hospitals of the State of Louisiana.

Basis of presentation

The financial statements of LHRO have been prepared on the accrual basis of accounting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation and allowance for doubtful accounts.

Revenue recognition

Revenue represents fee for service contracts from governmental units and agencies. LHRO records service contract revenue as services are rendered.

Cash and cash equivalents

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts, and certificates of deposit with original maturity of three months or less, except that cash for client accounts are designated as restricted cash.

Certificates of deposit with a maturity of greater than three months and investments in mutual funds are classified as investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

LHRO, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from LHRO's cash accounts.

Investments and investment income

Financial Accounting Standards Board's ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the sources of pricing information (inputs) to valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that LHRO has the ability to access.

Level 2 – Inputs including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable and significant to the fair value measurement.

LHRO's investments are stated at fair value, with the amount of unrealized gain or loss recorded in the statement of activities. Time certificates of deposit are recorded at cost, which is market value. Shares of registered investment companies (mutual funds) are valued at the quoted net asset value of such investments held by LHRO at year end. Purchases and sales of securities are recorded on a trade-date basis, at which time the realized gain or loss is recognized in the statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at cost, net of an allowance for doubtful accounts. Management evaluates collectability of its accounts receivable on a per customer basis and does not require collateral for its receivables. At June 30, 2010 and 2009, the allowance for doubtful accounts was $10,100.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are carried at cost. Additions, renewals, and betterments that extend the life of assets are capitalized; maintenance and repair expenditures are expensed as incurred. The cost of property and equipment sold or otherwise disposed and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

Depreciation is provided using the straight-line method over the estimated useful lives of the property, ranging from five to ten years.

Paid time off

Paid time off is earned at varying rates from two to four weeks per year depending on length of service. A maximum of two weeks paid time off may be carried forward at each employee's anniversary date. At June 30, 2010 and 2009, $37,663 and $115,737, respectively, has been accrued for paid time off.

Fair value of financial instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value due to the short-term maturity of these instruments. None of the financial instruments are held for trading purposes.

Income tax

Effective July 1, 2006, LHRO elected to be taxed as an S Corporation. As such, taxable earnings and losses after that date are included in the personal income tax return of LHRO's shareholder and taxed according to the individual stockholder's personal tax strategies. Accordingly, LHRO has not recorded income tax expense and liabilities for the periods subsequent to July 1, 2006. Prior to July 1, 2006, LHRO was a taxable entity.

LHRO is subject to certain "built-in" gains tax for the difference between the fair value and tax reporting basis of assets at the date of conversion to an S Corporation if the assets are sold (and a gain is recognized) within ten years following the date of conversion. LHRO may be subject to built-in gain taxes on sales of such assets.

LHRO adopted provisions of FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, on July 1, 2009. Management believes it has no material uncertain tax positions and, accordingly, has not recognized a liability for any unrecognized tax benefits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension plan

LHRO has adopted a 401(k) retirement plan with a 3% matching option. Under the provisions of the plan, employees may elect to defer a percentage of their compensation up to a maximum of $16,500 annually. Salary deferrals and the related earnings are 100% vested and non-forfeitable. During the years ended June 30, 2010 and 2009, LHRO contributed $3,409 and $17,355, respectively to the plan.

These assets are held in the trust fund established under the Plan; the trust fund is independent of LHRO. The responsibility for administration of the Plan is with Mutual of America Insurance Company.

NOTE 2 - INVESTMENTS

Investments are in mutual funds and a certificate of deposit. The investment in mutual funds at June 30, 2010 and 2009 had a cost of $44,289 and $42,557, respectively. Certificates of deposit are recorded as cost which approximates market value.

As of June 30, 2010 and 2009, the fair value hierarchy of LHRO's investments was as follows:

	2010	2009
Mutual fund (Level 1)	$ 30,301	$ 27,810
Certificate of deposit (Level 2)	-	27,460
	$ 30,301	$ 55,270

The summary of investment return at June 30, 2010 and 2009 is as follows:

	2010	2009
Interest, dividends and capital gain distributions	$ 1,732	$ 1,570
Unrealized gains (losses), net	759	(10,044)
	$ 2,491	$ (8,474)

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives and accumulated depreciation at June 30, 2010 and 2009, are as follows:

	Estimated Service Lives	2010	2009
Leasehold improvements	7 years	$ 36,326	$ 27,194
Equipment	5-10 years	73,145	71,184
Furniture	7 years	98,843	106,697
Vehicles	5 years	90,056	90,056
		298,370	295,131
Less accumulated depreciation		(138,327)	(117,666)
		$ 160,043	$ 177,465

Depreciation expense was $33,493 and $34,647 for the years ended June 30, 2010 and 2009, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS

LHRO leased premises from Harmony Center, Inc. for the year ended June 30, 2010. The shareholder of LHRO is an officer of Harmony Center, Inc. During 2010 and 2009, LHRO paid rent to Harmony Center, Inc. of $33,912 and $17,098, respectively.

LHRO contracts with Johnson Management Group, LLC, a company whose managing member is the shareholder of LHRO. During 2010 and 2009, LHRO paid Johnson Management Group, LLC $1,148,588 and $125,000, respectively, for administrative personnel and management fees under this agreement. Additionally, Johnson Management Group, LLC owed LHRO $29,239, at June 30, 2010.

LHRO leases office space and a vehicle from Louisiana Health & Rehab Center, Inc. (LHRC), a non-profit organization managed by LHRO's shareholder. The rental expense incurred by LHRO under these lease agreements was $70,674 and $22,487 for the years ended June 30, 2010 and 2009, respectively. In addition, At June 30, 2010 and 2009, LHRO received $11,937 and $6,432, respectively, from LHRC for the lease of office space and a vehicle. At June 30, 2010 and 2009, LHRC owed LHRO $13,472 and $22,203, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)

LHRO has entered into a three year non-cancelable operating lease for office space from LHRC. The amount paid during 2010 and 2009 for this lease was $21,774 and $10,887, respectively. Future minimum lease payments are as follows:

Year	Amount
2011	$ 21,774
2012	10,887
	$ 32,661

NOTE 5 - ECONOMIC DEPENDENCY

LHRO derives its revenues from governmental sources as earned revenue, the loss of which would have a material adverse effect on the Company's operations.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject LHRO to concentrations of credit risk consist primarily of receivables. In addition, LHRO maintains cash in local banks, which may, at times, exceed the FDIC limits. Management believes the risk is limited.

NOTE 7 - CONTINGENCIES

Risk Management

Various lawsuits arise in the normal course of LHRO's business. Management believes that losses resulting from these matters, if any, will not have a material effect on the operations or financial position of LHRO.

NOTE 8 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 30, 2010, the date the financial statements were available to be issued.

Special Independent Auditors' Report

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

June 30, 2010

Faulk Winkler LLC
Certified Public Accountants • Business Advisors

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

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

We have audited the financial statements of **LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC. (LHRO)** (an S-Corporation) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered LHRO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LHRO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LHRO's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified a significant deficiency in internal control over financial reporting, described as finding 2010-1 in the accompanying schedule of findings and questioned costs that we consider to be a material weakness in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether LHRO'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 or other matters that are required to be reported under *Government Auditing Standards*.

LHRO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit LHRO's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Faulk + Winkler LLC

Certified Public Accountants

Baton Rouge, Louisiana
November 30, 2010

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.

Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

1) Summary of Auditors' Results:

A) The type of report issued on the financial statements: **Unqualified opinion.**

B) Significant deficiencies in internal control were disclosed by the audit of financial statements: **2010-1.**
Material weaknesses: **2010-1.**

C) Noncompliance which is material to the financial statements: **None.**

D) Findings relating to the financial statements reported in accordance with Government Auditing Standards: **2010-1.**

2010-1 Financial Statement Preparation

Criteria: Under U.S. generally accepted accounting principles (GAAP), an entity must have internal controls in place to ensure that presentation and related disclosures of its financial statements and related footnotes are in compliance with GAAP.

Condition: LHRO relies on its auditors to assist in the preparation of external financial statements and related disclosures.

Cause: Under U.S. GAAP, the auditors cannot be considered part of the LHRO'S internal control structure; however, design of the internal control structure does not otherwise include procedures to prepare internal financial statements and related disclosures in conformity with GAAP.

Recommendation: LHRO considers using the CFO to review and approve the external financial statements to alleviate the deficiency to be adequate and appropriate. Under this option, LHRO provides additional resources to the CFO to obtain/maintain the technical expertise needed to prepare or review the external financial statements, including related footnote disclosures, which are in accordance with generally accepted accounting principles.

Alternatively, LHRO continues to rely on its auditing firm to prepare the external financial statements. However, this matter will continue to be reported.

Furthermore, there were no material audit adjustments considered or recorded. As such, the year end financial statement prepared by LHRO's CFO reported financial position and results of operations in accordance with generally accepted accounting principles.

Management's corrective action plan: Management understands that this finding results from professional standards that have been adopted by the accounting profession. Management intends to continue using the auditing firm to prepare the external financial statements and related footnote disclosures.

LOUISIANA HEALTH AND REHABILITATION OPTIONS, INC.
Baton Rouge, Louisiana

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

2009-1 Accounting Overview/Financial Statement Preparation

The finding has been reclassified Finding 2010-1.

2009-2 Support for Cash Disbursements

This finding is considered resolved.

2009-3 Suspension and Debarment

This finding is considered resolved.

2009-4 Federal Award Expense Support

This finding is considered resolved.