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LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2010

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

TABLE OF CONTENTS

June 30, 2010

FAULK & WINKLER LLC
Certified Public Accountants • Business Advisors

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC. (LHRC)** (a non-profit organization) as of June 30, 2010 and 2009, and the related statement of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of LHRC'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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **LOUISIANA HEALTH AND REHABILITATION CENTER, 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 CENTER, 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 audits.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of **LOUISIANA HEALTH AND REHABILITATION CENTER, 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 basic 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.

Faulk & Winkler LLC

Certified Public Accountants

Baton Rouge, Louisiana
November 30, 2010

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash	$ 57,301	$ 448,972
Restricted cash	1,555	947
Investments	162,418	139,653
Receivables, net	276,299	413,917
Prepaid expenses	66,995	73,343
Total current assets	564,568	1,076,832
PROPERTY AND EQUIPMENT, net	553,943	574,930
OTHER	18,554	5,473
Total assets	$ 1,137,065	$ 1,657,235

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts payable	$ 45,983	$ 38,364
Accrued expenses	96,156	171,725
Amounts held for others	1,310	947
Current portion of long term debt	13,906	164,821
Total current liabilities	157,355	375,857
DUE TO RELATED PARTY	56,998	22,203
LONG-TERM DEBT, less current maturities	124,348	9,503
Total liabilities	338,701	407,563
NET ASSETS		
Unrestricted	798,364	1,249,672
Total liabilities and net assets	$ 1,137,065	$ 1,657,235

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

Exhibit B

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2010 and 2009

SUPPORT AND REVENUE	2010	2009
Public Support:		
Reality House	$ 791,650	$ 662,039
ATR/Transitional	433,642	529,316
Awakening	272,071	561,721
Divine Intervention	155,191	102,824
Ryan White HIV/AIDS Treatment Modernization Act Grant	132,164	107,372
Children's Choice	123,172	170,412
Planned Therapeutic Recreation	91,606	105,537
Homelessness Prevention	82,231	-
Capital Area Substance Abuse Prevention	47,982	45,766
Baton Rouge Waiver	-	58,268
Other	-	32,210
Rent	81,518	42,813
Other	105,902	15,676
Investment gain (loss), net	22,766	(51,015)
Total support and revenue	2,339,895	2,382,939
EXPENSES		
Program expenses		
Payroll	754,272	1,371,444
Management fees	527,089	-
Occupancy	317,898	268,016
Direct services	275,253	281,775
Professional services	58,377	41,252
Depreciation	24,706	18,951
Supplies	32,421	45,775
Computer and software	10,438	-
Bad debt	5,393	175,981
Other	25,721	33,756
General and administrative	759,635	752,463
Total expenses	2,791,203	2,989,413
Decrease in net assets	(451,308)	(606,474)
NET ASSETS - UNRESTRICTED		
Beginning of year	1,249,672	1,856,146
End of year	$ 798,364	$ 1,249,672

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

Exhibit C

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (451,308)	$ (606,474)
Adjustments for non-cash items:		
Depreciation	50,033	41,923
Unrealized investment (gain) loss, net	(17,781)	54,458
Change in operating assets and liabilities:		
Receivables	137,618	(97,970)
Prepaid expenses and other assets	(6,732)	(57,335)
Accounts payable and other current liabilities	(77,090)	46,462
Net cash used by operating activities	(365,260)	(618,936)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(29,046)	(109,661)
Purchase of investment	(4,985)	(11,270)
Net cash used by investing activities	(34,031)	(120,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(26,567)	(12,552)
Payments from related parties, net	34,795	(12,608)
Net cash provided (used) by financing activities	8,228	(25,160)
Net decrease in cash	(391,063)	(765,027)
CASH, including restricted cash		
Beginning of year	449,919	1,214,946
End of year	$ 58,856	$ 449,919
CASH		
Cash	$ 57,301	$ 448,972
Restricted cash	1,555	947
Total cash	$ 58,856	$ 449,919

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

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operations

Louisiana Health and Rehabilitation Center, Inc. (LHRC) is a non-profit 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 by the State of Louisiana agencies through the Department of Health and Hospitals.

Basis of presentation

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

LHRC reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. LHRC does not have any temporarily or permanently restricted net assets for the years ended June 30, 2010 and 2009.

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 from grants and contracts are recognized according to the specific agreement. Generally, revenues from grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of services provided.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts, except that client cash accounts are included with restricted cash.

Restricted cash

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

LHRC's investments are stated at fair value, with the amount of unrealized gain or loss recorded in the statement of activities. Shares of registered investment companies (mutual funds) are valued at the quoted net asset value of such investments held by LHRC 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $21,615 and $49,149, respectively.

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 forty 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 over at each employee's anniversary date. The liability for paid time off at June 30, 2010 and 2009 was $5,100 and $34,237, respectively.

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 taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

LHRC 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

LHRC 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, LHRC contributed $2,133 and $15,056 to the plan, respectively.

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

Advertising

LHRC expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2010 and 2009 was $4,900 and $4,088, respectively.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 financial statement presentation.

NOTE 2 - GOING CONCERN

LHRC's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. LHRC incurred net losses for 2010 and 2009 of $440,226 and $606,474, respectively. These losses are due in part to reductions in state and federal program budgets.

Management has indicated that it plans to continue efforts to enhance LHRC's financial position by doing the following:

- Discontinuing unprofitable programs while maintaining a high level of community service as per LHRC's mission statement,
- Reduction of administrative cost by reducing positions and combining duties of other positions, as well as reducing or eliminating certain contract labor or services,
- Reduction in the rate of employee pay as well as employee benefits, and
- Aggressive pursuit of substance abuse and AIDS funding that will compliment currently established programs.

NOTE 2 - GOING CONCERN (CONTINUED)

The ability of LHRC to continue as a going concern is dependent upon the success of these actions. While plans for addressing operations and financial position issues are based on forward-looking events, management believes the effects of these actions will allow improvement to operating performance and financial position. Management expects these improvements and others to continue and anticipates future operating results will allow it to meet its obligations for the foreseeable future.

The financial statements do not include any adjustments relating to the recoverability of recorded asset or liability amounts that might be necessary should LHRC be unable to continue as a going concern.

NOTE 3 - INVESTMENTS

Investments in mutual funds at June 30, 2010 and 2009 are $203,889 and $198,904 with market values (financial statement basis) of $162,418 and $139,653, respectively. Mutual funds are considered level one investments in the fair value hierarchy.

The following schedule summarized the investment return:

	2010	2009
Dvidends and capital gain distributions	$ 4,985	$ 3,443
Unrealized gains (losses)	17,781	(54,458)
	$ 22,766	$ (51,015)

NOTE 4 - 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
Land	-	$ 74,725	$ 70,000
Buildings	39 - 40 years	268,940	267,263
Leasehold improvements	39 years	154,443	154,443
Furniture and equipment	5 - 7 years	145,929	125,393
Vehicles	5 years	173,784	180,474
Property and equipment		817,821	797,573
Accumulated depreciation		(263,878)	(222,643)
		$ 553,943	$ 574,930

Depreciation expense was $50,033 and $41,923 for the years ended June 30, 2010 and 2009, respectively.

NOTE 5 - LONG TERM DEBT

Long-term debt consists of a 5.5% note payable in 104 monthly installments of $1,764, secured by building, and maturing August 2018. The portion of this debt that has been classified as current is $13,906.

Maturities of long-term debt for the years succeeding June 30, 2010, are as follows:

Year	Amount
2011	$ 13,906
2012	14,691
2013	15,520
2014	16,395
2015	17,319
Thereafter	60,423
	138,254
Current portion	(13,906)
Total	$ 124,348

NOTE 6 - RELATED PARTY TRANSACTIONS

LHRC leased premises to and from Harmony Center, Inc. for the years ended June 30, 2010 and 2009. The Executive Director of LHRC is an officer of Harmony Center, Inc. During 2010 and 2009, LHRC received rent from Harmony Center of $6,844 and $18,127, and reimbursed Harmony Center $2,500 and $5,854, respectively. LHRC owed Harmony Center, Inc. $1,920 at June 30, 2010.

LHRC contracts with Johnson Management Group, LLC, a company whose managing member is the Executive Director of LHRC. During 2010 and 2009, LHRC paid Johnson Management Group, LLC $808,348 and $72,000, respectively, for rent, administrative personnel and management fees under these agreements. Additionally, LHRC owed Johnson Management Group, LLC $68,952 at June 30, 2010.

LHRC leased premises from Temple Properties, LLC, for the years ended June 30, 2010 and 2009. The Executive Director of LHRC is manager of Temple Properties, LLC. The rental expense incurred under these leases for the years ended June 30, 2010 and 2009 was $69,895 and $56,400, respectively.

LHRC leases office space and a vehicle to Louisiana Health & Rehab Options, Inc. (LHRO), a Louisiana corporation owned by the Executive Director. The rental expense incurred by LHRC under these lease agreements for the years ended June 30, 2010 and 2009 was $12,437 and $6,432, respectively. In addition, LHRC received $74,674 in 2010 and $22,487 in 2009 from LHRO for the lease of office space and a vehicle. At June 30, 2010 and 2009, LHRO owed LHRC $13,472 and $22,203, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

LHRC subleases a portion of their office space to LHRO. The amounts received during 2010 and 2009 from the sublease were $21,774 and $10,887, respectively. Future minimum lease receipts are as follows:

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

Additionally, LHRC leases office furniture from LHRO. The amount paid for the year ended June 30, 2010 was $5,034. Future minimum lease payments are as follows:

Year	Amount
2011	$ 5,034
2012	5,034
2013	5,034
	$ 15,102

NOTE 7 - ECONOMIC DEPENDENCY

LHRC derives its revenues from governmental sources as earned revenue or grants, the loss of which would have a material adverse effect on LHRC. During the years ended June 30, 2010 and 2009, revenue derived from governmental sources accounted for the majority of support recorded by LHRC.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

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

NOTE 9 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest for the years ended June 30, 2010 and 2009 was $13,225 and $5,903, respectively.

NOTE 10 - OPERATING LEASE

LHRC has entered into a three year non-cancelable operating lease for office space. The amounts paid during 2010 and 2009 for the lease was $37,596 and $18,798, respectively. Future minimum lease payments are as follows:

Year	Expense
2011	$ 37,596
2012	18,798
	$ 56,394

LHRC subleases a portion of their office space to LHRO. See Note 6.

NOTE 11 - CONTINGENCIES

Grants

LHRC receives federal and state contracts for specific purposes that are subject to audit by the agencies. Such audits could lead to requests for reimbursement to the agency for expenditures disallowed under terms of the contract. It is the opinion of management that LHRC's compliance with the terms of contracts will result in negligible, if any, disallowed costs.

Risk Management

Various lawsuits arise in the normal course of LHRC'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 LHRC.

NOTE 12 - 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 CENTER, INC.

Baton Rouge, Louisiana

June 30, 2010

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 Center, Inc.
Baton Rouge, Louisiana

We have audited the financial statements of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** (a non-profit organization) 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 LHRC'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 LHRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LHRC'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 a 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 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 in the accompanying schedule of findings and questioned costs as Item 2010-1 that we consider to be a material weakness in internal control over financial reporting. A *significant deficiency* is a deficiency, or a 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 LHRC'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.*

LHRC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit LHRC's response and, accordingly, we express no opinion on it.

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

Faulk & Winkler LLC
Certified Public Accountants • Business Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC. (LHRC)** (a non-profit organization) 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, 2010. LHRC's major federal programs are identified in the summary of auditors' 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 the LHRC's management. Our responsibility is to express an opinion on LHRC'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 Governments, 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 LHRC'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 LHRC's compliance with those requirements.

In our opinion, LHRC 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, 2010.

Internal Control Over Compliance

The management of LHRC 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 LHRC's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LHRC's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2010-1 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2010-1 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Organization's management and Board of Directors, the Louisiana Legislative Auditor and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

Faulk & Winkler LLC

Certified Public Accountants

Baton Rouge, Louisiana
November 30, 2010

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

	Grantor/State Pass-through/ Program name/ Location of Project	CFDA Number	Grant Amount	Federal Expenditures
	U.S. Department of Housing and Urban Development			
	City of Baton Rouge\Office of Community Development			
*	ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.262	$ 150,008	$ 82,231
	U.S. Department of Housing and Urban Development			
	City of Baton Rouge\Office of Community Development			
	Housing Opportunities for Persons with AIDS	14.241	148,774	155,191
	U.S. Department of Health and Human Services			
	State of Louisiana/Department of Health and Hospitals			
	Capital Area Human Services District			
	Children of Parents with Addictive Disorders	93.959	48,000	47,982
*	Block Grants for the Prevention and Treatment of Substance Abuse	93.959	91,080	77,404
*	Pregnant and Postpartum Women Program	93.959	227,760	143,052
*	Temporary Assistance for Needy Families	93.959	599,330	416,563
		Subtotal CFDA# 93.959		685,001
	State of Louisiana/Department of Health and Hospitals			
	Office of Addictive Disorders			
	Access to Recovery	93.275	-	88,349
	Health Resources and Services Administration			
	City of Baton Rouge/Office of Community Development			
	Ryan White Services/			
	HIV Emergency Relief Project Grant	93.914	103,405	72,246
	Minority Aids Initiative Grant	93.914	54,882	51,206
		Subtotal CFDA# 93.914		123,452
	State of Louisiana\Department of Social Services			
	Office of Community Services			
	Awakening Emergency Shelter	unavailable	521,220	264,535
	Total Federal Assistance			$ 1,398,759

* Major program

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

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Louisiana Health and Rehabilitation Center, Inc. (LHRC) Schedule of Expenditures of Federal Awards presents the activity of the federal assistance programs of LHRC. All federal assistance received directly from federal agencies as well as federal assistance passed-through other government agencies are included on the schedule.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the LHRC's financial statements for the year ended June 30, 2010.

LOUISIANA HEALTH AND REHABILITATION CENTER, 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) Significant deficiencies in internal control over major programs: **2010-1.**

E) The type of report issued on compliance for major programs: **Unqualified opinion**

F) Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: **2010-1.**

G) Major programs:

U.S. Department of Housing and Urban Development

City of Baton Rouge
Office of Community Development
1) ARRA – Homelessness Prevention and Rapid Re-Housing Program
C.F.D.A. 14.262

U.S. Department of Health and Human Services

State of Louisiana/ Department of Health and Hospitals
Capital Area Human Services District
1) Block Grants for the Prevention and Treatment of Substance Abuse
2) Pregnant and Postpartum Women Program
3) Temporary Assistance for Needy Families
C.F.D.A. 93.959

H) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000.**

I) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

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

3) Findings and questioned cost relating to federal awards: **2010-1.**

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SUMMARY OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

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: LHRC 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 LHRC'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: LHRC considers using the CFO to review and approve the external financial statements to alleviate the deficiency to be adequate and appropriate. Under this option, LHRC 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, LHRC 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 LHRC'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 CENTER, 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 issues related to accounting overview/financial statement preparation have been reclassified as 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 Billing and Expense Support

This finding is considered resolved.