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LOUISIANA HEALTH & REHAB CENTER, INC.

FINANCIAL STATEMENTS

06/30/05

&

06/30/04

TABLE OF CONTENTS

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, 2005 and 2004, and the related statements of activities 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 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, 2005 and 2004, 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.

(Continued Next Page)

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 29, 2005, 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, grants, 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.

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 29, 2005

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2005 and June 30, 2004

	Jun 30, 2005	Jun 30, 2004
ASSETS		
Current Assets		
Cash & Cash Equivalents	$ *499,997*	$ *209,615*
Accounts Receivable	216,859	174,750
Prepaid Insurance	23,968	21,524
Total Current Assets	740,824	405,889
Fixed Assets		
Building	437,482	180,342
Accum. Depreciation	(22,114)	(11,836)
Furniture & Fixtures	29,742	29,742
Accum. Depreciation	(8,626)	(4,378)
Leasehold Improvements	41,890	41,890
Accum. Depreciation	(16,508)	(11,773)
Office Equipment/Computers	26,415	22,398
Accum. Depreciation	(11,677)	(6,718)
Vehicles	123,998	103,174
Accum. Depreciation	(67,996)	(46,863)
Land	70,000	60,000
Net Fixed Assets	602,606	355,978
Other Assets		
Banc One Securities(A.F.S.)	517,378	495,087
Priamerica Securities (A.F.S.)	32,849	-
Due from Client	240	-
Deposits-Security	872	872
Due from employee	-	113
Due from LHRO	28,824	35,700
Total Other Assets	580,163	531,772
TOTAL ASSETS	**$ 1,923,593**	**$ 1,293,638**

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2005 and June 30, 2004

	Jun 30, 2005	Jun 30, 2004
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable	$ 5,942	$ 18,950
Current Maturities of L.T. Debt	33,576	28,337
Due to Clients	1,532	1,447
Garnishment Payable	1,032	-
Progressive-Insurance Payable	13,538	17,259
L/P-Chase Bank -Van	-	4,128
N/P-Hibernia (Van)	-	5,664
N/P-Hibernia (F350)	4,889	-
Accrued Taxes	3,362	1,840
Accrued Wages	43,960	24,042
FICA Tax Payable	-	4,932
FWH Tax Payable	-	2,541
401k Retirement Payable	2,408	-
SUTA Tax Payable	4,635	5,110
SWH Tax Payable	2,033	1,407
Total Current Liabilities	116,907	115,658
Long Term Liabilities		
N/P-Chase Bank(Land)	26,610	34,084
N/P-Chase Bank(Bldg)	74,312	100,279
N/P-Ford Credit(Van)	-	11,518
N/P-Chase Bank(Lafy. Bldg)	204,886	-
N/P-Wells Fargo	5,768	10,260
Current Maturity of LT Debt	(33,576)	(28,337)
Total Long-Term Liabilities	278,000	127,803
Total Liabilities	394,907	243,461
NET ASSETS		
Unrestricted Net Assets	1,050,177	738,296
Net Income	478,509	311,881
Common Stock (-0- shares Authorized & Issued)	-	-
Total Net Assets	1,528,686	1,050,177
TOTAL LIABILITIES & NET ASSETS	$ 1,923,593	$ 1,293,638

See Accountant's Audit Report

Louisiana Health and Rehab Center, Inc.
Statement of Activities
Years Ended June 30, 2005 and June 30, 2004

	June 30, 2005	June 30, 2004
UNRESRTICTED NET ASSETS		
Unrestricted Revenues & Gains		
Program Services	$ 2,098,372	$ 1,501,087
Other Services/Reimbursed Expenses	787	11,332
Interest Income	1,530	6,069
Dividend Income	22,712	1,515
Unrealized Gain on Securities	3,376	-
Rental Income	36,383	33,121
Contributions	2,000	5,157
Total Unrestricted Revenues & Gains	2,165,160	1,558,280
Net Assets Released From Restrictions:	-	-
Total Unrestricted Revenues & Gains & Other Support	2,165,160	1,558,280
Expenses		
Program Services	1,377,795	1,016,140
Supporting Services (Management & General)	308,856	230,258
Total Expenses	1,686,651	1,246,398
INCREASE IN UNRESTRICTED NET ASSETS	**478,509**	**311,881**
TEMPORARILY RESTRICTED NET ASSETS		
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-
PERMNANENTLY RESTRICTED NET ASSETS		
INCREASE IN PERMNANENTLY RESTRICTED NET ASSETS	-	-
INCREASE IN NET ASSETS	478,509	311,881
NET ASSETS, BEGINNING OF YEAR	1,050,177	738,296
NET ASSETS, END OF YEAR	**$ 1,528,686**	**$ 1,050,177**

LOUISIANA HEALTH AND REHAB CENTER, INC.
STATEMENT OF CASH FLOWS
YEARS ENDING JUNE 30, 2005 and 2004

	UNRESTRICTED	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$478,509	$311,811
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized loss/(Gain)	(3,376)	6,428
Depreciation and amortization	45,353	36,617
(Increase)decrease in operating assets:		
Accounts Receivable	(42,109)	(20,875)
Prepaid expenses	(2,444)	10,173
Other Receivables	(127)	-0-
Defer compensation	-0-	34,500
Increase(decrease) in operating liabilities:		
Accounts Payable	(16,730)	10,486
Due to clients	85	88
Accrued wages	19,918	16,547
Accrued tax	(5,801)	2,607
Accrued retirement benefits	2,408	(669)
Garnishment Payable	1,032	-0-
Contributions restricted for long-term purpose	-0-	-0-
NET CASH PROVIDED BY OPERATING ACTIVITIES	*$476,718*	*$407,783*
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase/Earnings on Investments	($51,765)	($500,000)
Proceeds from property and equipment loans	212,000	40,000
Purchase of property and equipment	(291,982)	(81,828)
Payments on notes payable	(61,466)	(69,653)
NET CASH USED BY INVESTING ACTIVITIES	$(193,213)	$(611,481)

LOUISIANA HEALTH AND REHAB CENTER, INC.
STATEMENT OF CASH FLOWS
YEARS ENDING JUNE 30, 2005 AND 2004

	UNRESTRICTED	
	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Due from LHRO, Inc.	$ 6,877	$(42,000)
NET CASH USED BY FINANCING ACTIVITIES	$ 6,877	$(42,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	290,382	(295,698)
BEGINNING CASH AND CASH EQUIVALENTS	209,615	455,313
ENDING CASH AND CASH EQUIVALENTS	$ 499,997	$209,615
Supplemental Data:		
Interest paid	$ 15,242	$ 15,242

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

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 Government agencies.

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.

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

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 6/30/05 and 6/30/04.

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.

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, 2005 and 2004, the Company had uninsured cash balances of $398,465 and $73,732, 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 6/30/05 and 6/30/04.

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 $2,000 and $5,157 of unrestricted contributions for years ending 6/30/05 and 6/30/04, respectively.

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

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 6/30/05 and 6/30/04, or were any donor promises made.

Contributed Services

During the years ended June 30, 2005 and 2004, 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 6/30/05 and 6/30/04, these expenses totaled $287,151 and $230,258, respectively.

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

2. **Related Party Transactions**

During the year ended June 30, 2005, 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, 2005 and 2004, respectively.

During the year ended June 30, 2005, the Company received rents from Louisiana Health & Rehabilitation Options, Inc., whose President and 100% owner is the executive director of LHRC, Inc. The total rent payments received for years ending 6/30/05 and 6/30/04 were $24,702 and 24,000, respectively.

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 7/1/04, terminating 6/30/05, $2,000 monthly rental. The lease has been renewed for a one year period commencing 7/1/05.
Temple Properties, LLC (Reality House - Expansion) N. Blvd. BR,LA	One year term, commencing 7/1/04, terminating 6/30/05, $700 monthly rental. The lease has been renewed for a one year period commencing 7/1/05.

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

3. **Operating Leases (continued)**

Agape Outreach Ministry (Awakenings) Jackson, LA	Two year term, commencing 8/1/04, terminating 7/31/06, $3,000 monthly rental.

Future Annual Payments:

		6/30/05	6/30/06	6/30/07
Agape Outreach Ministry		$24,000	$36,000	$ 3,000
Temple Properties, LLC		32,400	-0-	-0-
	Total	$56,400	$36,000	$ 3,000

*There are no leases extending beyond 6/30/07.

Total rent expense under the above-described leases for the years ended June 30, 2005 was $56,400 and $44,400, respectively.

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 6/30/05		Recognized Support 6/30/04	
Reality House/Expansion	$ 720,324	(34%)	$ 830,152	(55%)
Children's Choice	134,872		113,855	
Awakening	524,792	(25%)	106,203	
BR Waiver	399,148	(19%)	182,496	(12%)
CAR	-0-		80,826	
CRI/Job	-0-		43,061	
Teen Pregnancy (NO)	104,173		122,187	
Capital Area	37,428		22,307	
ATR	4,524		-0-	
Teen Pregnancy (BR)	79,570		-0-	
NO Waiver	93,541		-0-	
Total Program Revenue	$2,098,372		$1,501,087	

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

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

5. **Summary of Grants/Contract Funding**

The company's programs were primarily funded through the following grants and contracts for the year ended 6/30/05:

CFDA#	Grant/ Contract#	Contract Period	Contract Total	Recognized Support@ 6/30/05
93.959	* 2SA1050	7/1/04-9/30/05	$784,212	$527,604
93.959	* 2SA1050A	7/1/04-6/30/05	192,720	192,720
			976,932	720,324
N/A	* 9505 (SIL) * 9507 (PCA)	7/1/04-6/30/05	$18,124 (per client)	399,148
N/A	** 4502091 (Medicaid)		Cost Reimbursement	134,872
N/A	**** 4448 (SIL) **** 3922 (PCA)	7/31/04-4/30/05	$18,124 (per client)	93,541
93.558	*** 615882	10/1/04-8/31/05	113,840	79,570
93.558	*** 615881	10/1/04-8/31/05	93,940	104,173
N/A	TIPS **** 020124698	7/01/04-6/30/06	$113 (Per Child/Per Day)	524,792
93.959	* 298	7/01/04-6/30/04	39,139	37,427

Funding Sources:
* Capital Area Human Services
** Department of Health & Hospitals
*** Department of Education
**** Department of Social Services

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

As of 6/30/05 and 6/30/04, accounts receivable from grants and contracts was composed of:

	2005	2004
Capital Area Human Services	$ 73,377	$ 67,785
Dept. of Health & Hospitals	4,524	45,727
Office of Social Services	37,110	39,149
Office of Community Development	9,855	-0-
Department of Education	31,508	-0-
Office of Community Support	60,485	22,089
Totals:	$216,859	$174,750

7. **Short Term Debt**

	6/30/05	6/30/04
N/P Ford Credit 12.5% annual interest rate; monthly payment of $641; maturing on 2/15/06. 2001 Ford E350 vehicle serves as collateral on the loan.	$ 4,889	$ -0-
N/P Progressive Nine monthly installments of $2,352 with a $5 monthly installment fee; maturing on 12/17/05; no collateral on debt; financing for auto insurance	13,538	17,260

7. **Short Term Debt** (Continued)

	6/30/05	6/30/04
L/P Chase Bank (Capital Lease) 6.765% annual interest rate; monthly payment of $2,591; maturing on 6/14/03; (2) 2002 Chevy vans serve as collateral	$ -0-	$ 4,128
Hibernia National Bank 12.5% annual interest rate; monthly payment of $599 maturing on 4/23/05, 2000 Ford Van serves as collateral.	-0-	5,664
Totals:	$18,427	$27,052

8. **Long Term Debt**

	6/30/05	6/30/04
N/P Chase Bank 6.5% annual interest rate; monthly payment of $1,858; maturing on 8/20/09; building on Webb street in Lafayette, LA serves as collateral on the loan	$204,886	-0-
N/P Chase Bank 6.5% annual interest rate; monthly payment of $1,332; 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	74,312	100,279

8. **Long Term Debt** (Continued)

	6/30/05	6/30/04
N/P Ford Credit 12.5% annual interest rate; monthly payment of $642; maturing on 2/15/06. 2001 Ford E350 vehicle serves as collateral on the loan	$ -0-	$ 11,517
N/P Wells Fargo Financial 9.0% projected interest rate on this capitalized lease; monthly payment of $436; maturing on 8/19/06. Lease does not have option to purchase	5,769	10,260
N/P Chase Bank 5.5.% annual interest rate monthly payment of $766, maturing on 8/8/08. A lot on North Lobdell serves as colleral on the loan	26,610	34,084
Totals:	311,577	156,140
Current Maturity of Debt	(33,576)	(28,337)
Total	$278,001	$127,803

Subsequent Debt Maturity

6/30/07	$ 31,364
6/30/08	32,470
6/30/09	26,749
6/30/10	178,722
6/30/11	8,696
Total	$278,001

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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.

	6/30/05	6/30/04
Employee Deferrals	$ 5,338	$ 4,687
Employer Contributions	$ 4,083	$ 3,447
Matching IRA Liability Due	$ -0-	$ -0-

Due to the company's Simple Plan exceeding 100 participants during the year ended 6/30/05, a 401k retirement plan was adopted, effective 1/1/05.The company elected a 3% matching for the year ended 6/30/05.

	6/30/05	6/30/04
Employee Deferrals	$ 1,315	$ -0-
Employer Contributions	$ 945	$ -0-
Matching 401k Liability Due	$ 945	$ -0-

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

10. **Deferred Compensation Plan**

The Company was 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
Premium paid	$ 11,950
Insurance cost	$ 2,910
Administrative cost	$ 11,421
Unrecognized Gain/Loss	$ -0-
Fair Market Value @ year end	$ -0-
Reorganized loss on Investment Liquidation	$ 1,502

11. **Investments (Available for Sale)**

The company has invested funds with Bank One Securities and Priamerica, which consist of 100% of mutual funds. The Banc One investments have a unrealized loss of $3,052 @ 6/30/05 and $6,428 @ 6/30/04. The Priamerica investment has a $1,120 unrealized gain as of 6/30/05 and no activity for 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 is as follows:

LOUISIANA HEALTH AND REHAB CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

11. **Investments (Available for Sale)** - (Continued)

	@6/30/05	@6/30/04
Banc One		
-Franklin Income Fund	$ 84,238	$ 74,264
-Franklin Govt. Sec.(Class A)	215,087	209,854
-Franklin Floating Fund(Class A)	218,053	210,969
Totals:	$517,378	$495,087

Priamerica		
-S/B Cap Inc FD CL B	$ 32,849	-0-

12. **Subsequent Events**

Due to Hurricane Katrina the New Orleans Program (NOPTR) had to close its doors for the month of September 2005. All of the programs capital assets were casualty losses, resulting programs capital assets were casualty losses, resulting a $7,420 loss in September 30, 2005. The short term loss of the Company's (2) minor programs and the $7,420 loss of the capital assets is not material, and in my opinion, does not effect these audited financial statements. New Orleans Teen Pregnancy Program was funded at 10/01/2005 and has been appealed by the State due to review, and currently is not up and running.

SUPPLEMENTAL INFORMATION

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2005

PROGRAM SERVICES

	Administration	ATR	Awakening	Baton Rouge Waiver	BR Teen Pregnancy	Capital Area	CHILDREN CHOICE	New Orleans Waiver	Reality House	Teen Pregnancy (TANF)	TOTAL
Insurance											
506 · Worker's Compensation Expense	$ 1,127	$ 10	$ 2,114	$ 2,034	$ 379	$ 219	$ 738	$ 598	$ 2,244	$ 509	$ 9,972
506.10 · Disability Insurance	-	-	-	-	-	-	-	-	-	-	-
507 · Liability Insurance	8,927	-	-	-	-	-	-	-	-	-	8,927
507.10 · Building	1,741	-	-	-	-	-	-	-	-	-	1,741
508 · Auto Insurance Expense	21,088	-	-	-	-	-	-	-	-	-	21,088
Total Insurance	32,884	10	2,114	2,034	379	219	738	598	2,244	509	41,729
Interest Expense	19,286	-	-	-	-	-	-	-	-	-	19,286
Payroll Expenses											
502 · Wages											
500 · Directors	-	-	*23,281*	*17,509*	*13,032*	*15,196*	-	10,601	28,286	20,080	127,985
501 · Administrator	64,437	-	-	-	-	-	-	-	-	-	64,437
502 · Wages - Other	60,781	632	211,053	207,848	29,185	8,563	81,446	55,436	219,875	36,358	911,178
Total 502 · Wages	125,217	632	234,335	225,356	42,217	23,759	81,446	66,037	248,161	56,439	1,103,599
503.10 · FICA Matching Tax	9,568	48	17,947	17,240	3,226	1,817	6,230	5,052	18,970	4,318	84,416
503.20 · SUTA Tax	650	6	4,058	3,330	850	366	1,859	1,316	3,478	740	16,653
503.30 · Federal/State Taxes	4	-	-	-	-	-	-	-	-	-	4
Total Payroll Expenses	135,439	686	256,340	245,926	46,293	25,941	89,535	72,405	270,609	61,497	1,204,672
Pest Control	800	-	-	-	-	-	-	-	-	-	800
Rent											
511 · Building	541	-	29,250	-	-	-	-	-	32,400	-	62,191
512 · Equipment	1,614	-	218	-	-	-	-	-	-	-	1,831
Total Rent	2,154	-	29,468	-	-	-	-	-	32,400	-	64,022
Repairs											
539.10 · Vehicle Repair	285	-	824	-	-	1,391	-	-	1,610	-	4,111
539.20 · Building Repairs	915	-	1,459	-	-	-	-	-	4,957	-	7,331
539.30 · Computer Repairs	-	-	286	-	-	-	-	-	-	-	286
539.40 · Equipment Repairs	188	-	120	-	-	-	-	-	3,380	-	3,687
Repairs - Other	79	-	73	-	-	-	-	-	-	-	151
Total Repairs	1,467	-	2,762	-	-	1,391	-	-	9,947	-	15,567
Supplies											
542 · Food	-	-	17,570	-	191	222	-	-	320	-	18,304
546 · Household Supplies	1,186	-	-	-	-	-	-	-	3,352	-	4,538
550 · Office	-	-	-	-	-	-	-	-	-	1,920	1,920
Supplies - Other	1,161	-	1,127	-	17	71	150	-	1,329	-	*3,854*
Total Supplies	2,347	-	18,697	-	208	293	150	-	5,001	1,920	28,616
Travel & Ent											
559 · Travel	541	-	707	2,146	-	171	75	2,107	1,050	-	6,797
559.10 · Gasoline	338	134	3,523	-	-	621	-	-	417	-	5,033

See Accountant's Audit Report

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2005

	Administration	ATR	Awakening	Baton Rouge Waiver	BR Teen Pregnancy	Capital Area	CHILDREN CHOICE	New Orleans Waiver	Reality House	Teen Pregrancy (TANF)	TOTAL
559.30 · Entertainment	167	-	-	-	-	-	-	-	-	-	167
559.40 · Meals	819	-	15	-	-	19	-	-	26	74	953
Travel & Ent - Other	368	-	87	-	-	-	-	125	-	-	570
Total Travel & Ent	2,224	134	4,332	2,146	-	811	75	2,232	1,493	74	13,519
Utilities											
593.10 · *Gas and Electric*	4,567	-	9,941	-	-	-	-	-	13,977	-	28,484
593.20 · Water	242	-	477	-	-	-	-	-	6,410	-	7,130
Utilities - Other	75	-	1,063	-	-	-	-	-	1,159	-	2,298
Total Utilities	4,884	-	11,481	-	-	-	-	-	21,546	-	37,911
504 · Licenses/Other Taxes	97	-	-	1,851	-	-	-	800	1,804	-	4,552
504.10 · Property Taxes	3,718	-	-	-	-	-	-	-	237	-	3,955
510 · Employee benefits											
510.20 · Retirement Benefits	2,603	-	-	695	-	-	-	-	1,580	-	4,878
510 · Employee benefits - Other	4,588	-	4,221	2,672	-	-	1,213	542	6,327	-	19,564
Total 510 · Employee benefits	7,191	-	4,221	3,367	-	-	1,213	542	7,908	-	24,442
512.10 · Lease-Equipment	5,820	-	3,247	-	-	-	-	-	-	-	9,068
520 · Advertising & Promotions	288	-	1,165	619	148	-	-	-	150	-	2,371
521 · Bank Service Charges	2,180	-	-	(26)	52	-	-	4	171	62	2,442
524.10 · Subscription	137	-	-	155	-	-	-	-	-	-	292
524.20 · Membership and Dues	650	-	-	-	-	-	-	-	90	-	740
539.50 · Maintenance Equipment Contract	-	-	728	-	-	-	-	-	-	-	728
539.60 · Maintenance, Blg & Grounds	259	-	2,821	-	-	-	-	-	1,136	940	5,156
540 · Contract for Outside Services	8,121	-	9,582	207	-	-	9,100	169	4,503	-	31,682
540.10 · Contract Labor	-	-	-	-	-	-	-	-	-	100	100
544.10 · Labortary and Drug Kit Supplies	642	-	-	-	-	-	-	-	-	-	642
548 · Miscellaneous	1,754	-	70	67	-	-	-	-	61	2,812	4,764
549 · Client Expense	-	-	7,992	305	900	60	8,105	515	9,013	-	26,890
550.10 · Office Equipment	200	-	-	-	-	-	-	-	519	-	719
550.20 · Printing and Reproduction	-	-	-	-	149	-	-	-	-	-	149
550.30 · Office Supplies	6,340	-	1,940	354	3,947	1,704	37	177	2,523	1,858	18,880
550.40 · Petty Cash Expense	100	-	737	-	-	-	-	-	-	-	837
552 · Postage and Delivery	297	-	375	-	-	-	-	6	-	28	705
554 · Professional Fees											
544 · Finger prints/Lab	70	-	569	736	106	20	157	158	731	64	2,611
554.10 · Legal Fees	20	-	-	-	-	-	-	-	25	-	45
554.20 · Accounting	8,240	-	-	-	-	-	-	-	-	-	8,240
554.30 · Consulting	418	-	4,122	12	-	-	-	-	5,177	-	9,728
554.40 · Inspection Expense	-	-	3,037	-	-	-	-	-	607	-	3,643
Total 554 · Professional Fees	8,747	-	7,727	748	106	20	157	158	6,539	64	24,267
554.50 · Technical Service	-	-	-	-	-	-	-	-	-	-	-
556 · Recreation Expense	388	-	545	-	2,777	2,720	-	-	852	8,973	16,254
556.10 · Snacks & Refreshment	42	-	-	-	471	-	-	-	-	-	513
558 · Training Expense	171	-	342	359	-	853	5	-	373	-	2,103
559.50 · Conference	-	-	-	150	-	-	-	-	-	-	150
569.10 · Equipment Expense	356	-	6,305	-	269	-	-	-	770	-	7,699
579 · Depreciation Expense	32,594	-	-	-	-	-	-	-	-	-	32,594
583 · Telephone	5,574	-	6,679	125	-	-	-	150	11,062	82	23,671

Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2005

	Administration	ATR	Awakening	Baton Rouge Waiver	BR Teen Pregnancy	Capital Area	CHILDREN CHOICE	New Orleans Waiver	Reality House	Teen Pregrancy (TANF)	TOTAL
595 · Automobile Expense	-	-	-	-	-	-	-	-	1,304	-	1,304
Totals:	287,151	831	379,670	258,389	55,698	34,012	109,115	77,756	392,252	78,919	1,673,791
Administration Allocation	(287,151)	172	78,624	53,508	11,534	7,043	22,596	16,102	81,229	16,343	0
Total Expenses After Allocation	$ 0	$ 1,003	$ 458,293	$ 311,897	$ 67,232	$ 41,055	$ 131,710	$ 93,858	$ 473,481	$ 95,262	$ 1,673,792

LOUISIANA HEALTH & REHAB CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

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)	131,711
-Prevention and Treatment of Substance Abuse	93.959	298/(CapArea) 2SA1050/(RH) 2SA1050A/(RH)	514,536
-Office of Family Support (T.A.N.F.)	93.558	/(TANF) 615881 615882	162,494
Department of Social Services		0202124698/ (Awankening)	458,294
Total Pass-Through Programs			1,267,035
Total U.S. Department of Health and Human Services			1,267,035
Total expenditures of Federal awards			1,267,035

**(See note #5 for Program Awards Received)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIIANCE AND OTHER MATTERS 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, 2005 and 2004, have issued our report thereon dated December 29, 2005. 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.

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 financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions

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Compliance and Others Matters

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 providing an opinion on compliance with those provisions was not an objestive or our audit, and accordingly, we do not express such an opinion. The results or our tests disclosed no instances of noncompliance or other matters that are reported under Government Auditing Standards.
Government Auditing Standards.

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 29, 2005.

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 29, 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.

Compliance

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, 2005. 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, 2005.

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.

(A Professional Accounting Corporation)
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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 29, 2005, presented on page #26. 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, Audits of States, Local Governments, and Non-profit organizations, 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 29, 2005

LOUISIANA HEALTH & REHAB CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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) and Awakenings.

8. The threshold used for distinguishing between Type A and B programs was $300,000.

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

LOUISIANA HEALTH & REHAB CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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.

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.

Current Status: The recommendation was adopted on December 24, 2005. No similar findings were noted in the 6/30/05 audit.

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Tel: (225) 338-0810 Fax: (225) 338-1998

December 29, 2005

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 6/30/05. 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.

-A $172.35 check to Z. Hicks on 7/1/04 was not run through payroll but is coded to the wage account in the general ledger.

-A $617.60 expense listed on the ledger @ 1/31/05 as "supplies" did not have any payee information listed. This expense was latter traced to the Bank One debit card statement.

-A Wells Fargo note payment of $229.82 on 1/11/05 is incorrectly coded to the property tax account.

-The following invoices were missing purchase orders:
  -9/7/04 Ben Clark Home Maintenance $450
  -5/4/05 Harkins A/C $120

-(2) Fuelman purchases on 8/19/04 and 3/31/05 was incorrectly coded to the "utilities" account.

-The invoice and purchase order was missing for Patricia Guerin training expense for $26.67 on 12/15/04.

Sincerely,

Gordon Gagliano, CPA