

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

AUDITED FINANCIAL STATEMENTS
June 30, 2019 and 2018



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana Health and Rehabilitation Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Reimbursements, Benefits, and Other Payments to Agency Head, Political Subdivision Head, or Chief Executive Officer is required by Louisiana Revised Statute 24:513 (A)(3) and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, on our consideration of 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 effectiveness of Louisiana Health and Rehabilitation Center, Inc.'s internal control over financial reporting or on compliance.. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisiana Health and Rehabilitation Center, Inc.'s internal control over financial reporting and compliance.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 29, 2020

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

(See Notes to Financial Statements)

June 30, 2019 and 2018

ASSETS

	June 30,	
	2019	2018
CURRENT ASSETS		
Cash	\$ 36,031	\$ 10,106
Restricted cash	-	1,126
Receivables	103,011	129,863
Prepaid expenses	40,946	39,271
TOTAL CURRENT ASSETS	179,988	180,366
PROPERTY AND EQUIPMENT		
Furniture, Fixtures and Equipment	136,875	134,375
Vehicles	93,507	93,507
Building	1,792	1,792
Leasehold Improvements	129,715	129,715
TOTAL PROPERTY AND EQUIPMENT	361,889	359,389
Less Accumulated Depreciation	(259,171)	(251,764)
	102,718	107,625
NET PROPERTY AND EQUIPMENT	102,718	107,625
OTHER ASSETS	1,361	1,361
TOTAL ASSETS	\$ 284,067	\$ 289,352

LIABILITIES AND NET ASSETS

	June 30,	
	2019	2018
CURRENT LIABILITIES		
Accounts Payable	\$ 21,646	\$ 36,907
Accrued Payroll Liabilities	1,120	2,021
Accrued Insurance	21,096	21,884
Other Accrued Expenses	28,757	31,503
Amounts Held for Others	-	1,126
Deferred Revenue	-	4,500
Due to Related Parties	204,456	70,657
Current portion of long term debt	<u>19,595</u>	<u>18,456</u>
TOTAL CURRENT LIABILITIES	296,670	187,054
LONG-TERM LIABILITIES		
Notes Payable, Related Party	52,551	72,708
Less current portion of long term debt	<u>(19,595)</u>	<u>(18,456)</u>
TOTAL LONG-TERM LIABILITIES	<u>32,956</u>	<u>54,252</u>
TOTAL LIABILITIES	329,626	241,306
NET ASSETS		
Without Donor Restrictions:		
Undesignated	<u>(45,559)</u>	<u>48,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 284,067</u></u>	<u><u>\$ 289,352</u></u>

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF ACTIVITIES
(See Notes to Financial Statements)
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUES		
Public Support:		
Reality House	\$ 727,018	\$ 622,652
Divine Intervention	-	48,670
Outpatient Substance Abuse	351,567	300,949
Cooperative Agreement to Benefit Homeless	55,994	29,971
Private Grants	62,250	75,000
Contributions	22,015	46,187
Rent	-	675
Interest Income	2	2
Other	<u>2,560</u>	<u>284</u>
 TOTAL SUPPORT AND REVENUES	 1,221,406	 1,124,390
 EXPENSES		
Program Expenses	980,031	1,125,327
General and Administrative	334,980	300,081
Fundraising	<u>-</u>	<u>13,622</u>
 TOTAL EXPENSES	 <u>1,315,011</u>	 <u>1,439,030</u>
 DECREASE IN NET ASSETS	 (93,605)	 (314,640)
 NET ASSETS		
BEGINNING OF YEAR	<u>48,046</u>	<u>362,686</u>
END OF YEAR	<u>\$ (45,559)</u>	<u>\$ 48,046</u>

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

(See Notes to Financial Statements)

For the Year Ended June 30, 2019

	2019			Total
	Program Expenditures	General & Administrative	Fundraising	
Automobile Expense	\$ 6,659	\$ -	\$ -	\$ 6,659
Bad Debt Expense	10,581	34,556	-	45,137
Background Check	252	-	-	252
Bank Service Charges	472	964	-	1,436
Contract for Outside Services	334,515	164,450	-	498,965
Client Expenses	3,781	-	-	3,781
Depreciation Expense	7,409	-	-	7,409
Employee Benefits	3,852	2,112	-	5,964
Insurance	28,194	68,998	-	97,192
Interest Expense	246	6,144	-	6,390
Laboratory Expenses	801	-	-	801
Licenses	1,603	3,895	-	5,498
Maintenance, Building and Grounds	16,958	-	-	16,958
Management Fees	-	13,000	-	13,000
Miscellaneous Expenses	7	14	-	21
Office Expenses	4,215	2,496	-	6,711
Payroll Expenses	376,290	598	-	376,888
Professional Fees	993	20,786	-	21,779
Property Taxes	43	-	-	43
Repairs	7,063	-	-	7,063
Rent	107,021	16,800	-	123,821
Storage	1,765	148	-	1,913
Supplies	11,648	19	-	11,667
Telephone	21,107	-	-	21,107
Training	900	-	-	900
Utilities	33,656	-	-	33,656
TOTAL	\$ 980,031	\$ 334,980	\$ -	\$1,315,011

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

(See Notes to Financial Statements)

For the Year Ended June 30, 2018

	2018			Total
	Program Expenditures	General & Administrative	Fundraising	
Advertising	\$ -	\$ 200	\$ -	\$ 200
Automobile Expense	17,651	177	-	17,828
Bad Debt Expense	197,500	-	-	197,500
Background Check	2,037	-	-	2,037
Bank Service Charges	371	752	-	1,123
Contract for Outside Services	279,877	152,927	-	432,804
Client Expenses	6,083	-	-	6,083
Depreciation Expense	8,060	-	-	8,060
Employee Benefits	2,220	7,281	-	9,501
Fundraising Expenses	-	-	13,622	13,622
Insurance	29,471	56,923	-	86,394
Interest Expense	6,963	1,724	-	8,687
Laboratory Expenses	1,008	81	-	1,089
Licenses	2,040	2,999	-	5,039
Maintenance, Building and Grounds	3,022	-	-	3,022
Management Fees	-	13,500	-	13,500
Memberships and Dues	-	770	-	770
Miscellaneous Expenses	89	55	-	144
Office Expenses	10,870	2,563	-	13,433
Payroll Expenses	354,690	(959)	-	353,731
Professional Fees	1,267	41,130	-	42,397
Repairs	19,218	80	-	19,298
Rent	107,052	17,148	-	124,200
Security Expenses	119	-	-	119
Storage	1,839	-	-	1,839
Supplies	14,736	1,953	-	16,689
Telephone	23,719	-	-	23,719
Training	-	450	-	450
Travel Expenses	128	327	-	455
Utilities	35,297	-	-	35,297
TOTAL	\$ 1,125,327	\$ 300,081	\$ 13,622	\$ 1,439,030

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

STATEMENTS OF CASH FLOWS
(See Notes to Financial Statements)
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (93,605)	\$ (314,640)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,409	8,060
Decrease (Increase) in Assets:		
Receivables	26,852	294,915
Due from Affiliate	-	22,640
Prepaid expenses and other assets	(1,675)	(80)
Increase (Decrease) in Liabilities:		
Accounts payable	(15,261)	9,461
Payroll liabilities	(901)	(3,064)
Accrued Insurance	(788)	8,772
Deferred Revenue	(4,500)	4,500
Other liabilities	(3,874)	(8,680)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(86,343)</u>	<u>21,884</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(2,500)</u>	<u>(1,625)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,500)</u>	<u>(1,625)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(20,157)	(19,161)
Advances (Repayments) from related parties net	<u>133,799</u>	<u>(16,330)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>113,642</u>	<u>(35,491)</u>
NET INCREASE (DECREASE) IN CASH	24,799	(15,232)
BEGINNING CASH AND CASH EQUIVALENTS	<u>11,232</u>	<u>26,464</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 36,031</u>	<u>\$ 11,232</u>
RECONCILIATION OF CASH		
Cash, Unrestricted	\$ 36,031	\$ 10,106
Cash, Restricted	-	1,126
	<u>\$ 36,031</u>	<u>\$ 11,232</u>

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Nature of 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 and by the City of Baton Rouge through the Office of Community Development.

Basis of Accounting – The financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation – LHRC reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of LHRC, the environment in which it operates, the purposes specified in corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reporting in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. LHRC does not have any net assets with donor restrictions for the year ended June 30, 2019 and 2018.

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.

Revenue and Revenue Recognition – Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

Cash and Cash Equivalents – For purposes of the statements of cash flows, LHRC considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Restricted Cash – LHRC, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from LHRC's cash accounts. This practice stopped during the year so there is no restricted cash as of December 31, 2019.

Receivables – Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements. No amounts for an allowance for bad debts have been established as LHRC expects to collect the balance in full.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue With and Without Donor Restrictions – Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Property and Equipment – Purchased property and equipment is recorded at cost. Acquisitions of land, buildings, and improvements, furniture and equipment in excess of \$1,000 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Estimated useful lives range from 5 to 15 years for most furniture, equipment, and major improvements and 39 years for buildings.

Depreciation expense was \$7,409 and \$8,060 for years ended June 30, 2019 and 2018, respectively.

Repair and maintenance costs are expensed as incurred. When property and equipment are retired or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective year.

Income Taxes – The Organization has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501c(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made; however, if the Organization should engage in activities unrelated to the purpose for which it was created, taxable income could result. The Organization has no unrelated business income for the years ended June 30, 2019 and 2018.

Advertising – LHRC follows the policy of charging the costs of advertising to expense as incurred. Advertising costs were \$0 and \$200 for the years ended June 30, 2019 and 2018, respectively.

Expense Allocation – Directly identifiable expenses are charges to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE 2: INCOME TAXES

The Organization follows FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2019 and 2018, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Generally, the tax years before June 30, 2016 are no longer subject to examination by federal, state, or local taxing authorities.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 3: LONG TERM DEBT

Long-term debt consists of a 6% promissory note payable owed to Louisiana Health and Rehab Options, Inc. (LHRO), a related party, in 46 monthly installments of \$2,000, and maturing March 1, 2021.

Maturities of long-term debt for the years succeeding June 30, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
FY20	\$ 19,595
FY21	<u>32,956</u>
	52,551
Current portion	<u>(19,595)</u>
Total	<u>\$ 32,956</u>

Interest paid during the year ending June 30, 2019 and 2018 was \$5,441 and \$7,487, respectively.

NOTE 4: RELATED PARTY TRANSACTIONS

Johnson Management Group, LLC- LHRC contracts with Johnson Management Group, LLC, a company whose managing member is a member of the Board of Directors of LHRC. During the year ending June 30, 2019 and 2018, LHRC paid Johnson Management Group, LLC \$391,470 and \$383,813, respectively, for administrative personnel, management fees, and other various expenses under these agreements. LHRC has not reimbursed Johnson Management Group, LLC, for any expenses during 2019 and 2018. Johnson Management Group, LLC also bills and collects rents on buildings and autos and submits these collections to the corresponding related party. The amounts collected for the year ending June 30, 2019 and 2018 was \$57,600 and \$57,600, respectively. Additionally, LHRC owed Johnson Management Group, LLC \$87,979 and \$50,449 at June 30, 2019 and 2018, respectively.

Temple Properties, LLC- LHRC leased premises from Temple Properties, LLC, for the year ended June 30, 2019 and 2018. A member of the Board of Directors of LHRC is a member and manager of Temple Properties, LLC. The rental expense incurred under these leases for the year ended June 30, 2019 and 2018 was \$59,400 and \$59,400, respectively. LHRC owed Temple Properties, LLC \$69,300 and \$0 for the year ended June 30, 2019 and 2018, respectively.

Louisiana Health & Rehab Options, Inc. (LHRO) – LHRC leases vehicles from LHRO. The amount paid for the year ended June 30, 2019 and 2018 was \$1,500 and \$3,250, respectively. Both leases are on a month-to-month basis. At June 30, 2019 and 2018, LHRC owed LHRO \$47,177 and \$20,208, respectively.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 5: OPERATING LEASES

LHRC leases one of its facilities, Reality House, from a related party for \$3,750 per month. The lease expires on June 30, 2020. Future minimum lease payments are \$45,000. Rent expense for June 30, 2019 and 2018 was \$45,000 and \$45,000, respectively.

LHRC leases one of its facilities, Pocahontas location, from a related party for \$1,200 per month. The lease expires on December 31, 2019. Future minimum lease payments are \$7,200. Rent expense for June 30, 2019 and 2018 was \$14,400 and \$14,400, respectively.

LHRC leases one of its facilities, Brookstown location, from a related party for \$3,400 per month. The lease expires on June 30, 2021. Future minimum lease payments are \$40,800. Rent expense for June 30, 2019 and 2018 was \$40,800 and \$40,800, respectively.

LHRC leases office space from a related party for \$1,400 per month. The lease expires on June 30, 2021. Future minimum lease payments are \$16,800. Rent expense for June 30, 2019 and 2018 was \$16,800 and \$16,800, respectively.

LHRC leases a copier on a month to month basis for \$276 per month plus additional usage charges for the year ended June 30, 2019 and 2018, respectively. Lease expense was \$3,321 and \$3,087 for the year ended June 30, 2019 and 2018, respectively.

NOTE 6: 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 year ended June 30, 2019 and 2018, revenue derived from governmental sources accounted for 93% and 93% of support recorded by LHRC, respectively.

NOTE 7: 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 8: CHANGE IN ACCOUNTING PRINCIPLE

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return. LHRC has implemented ASU 2016-14 and has presented the financial statements accordingly.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 9: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects LHRC's financial assets as of the statement of financial position date, reduced by any amounts not available for general use within one year of the statement of financial date because of contractual or donor-imposed restrictions for internal designations.

	<u>6/30/2019</u>	<u>6/30/2018</u>
Current Assets, excluding nonfinancial assets	\$139,042	\$141,095
Less those unavailable for general expenditures within one year:		
Restricted cash	<u>-</u>	<u>(1,126)</u>
Financial Assets available to meet cash needs for General expenditures within one year	<u>\$139,042</u>	<u>\$139,969</u>

NOTE 10: SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 29, 2020, the date the financial statements were available to be issued.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
AGENCY HEAD, POLITICAL SUBDIVISION HEAD OR CHIEF EXECUTIVE OFFICER
For the Year Ended June 30, 2019

Agency Head Name: Soundra Temple Johnson, Executive Director

LHRC does not pay any compensation, reimbursements, benefits or other payments to the executive director. There are no reportable amounts.



TWRU

CPAs & Financial Advisors

INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the 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, the financial statements of Louisiana Health and Rehabilitation Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Louisiana Health and Rehabilitation Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Health and Rehabilitation Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Louisiana Health and Rehabilitation Center, Inc.'s internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Health and Rehabilitation Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-01.

Louisiana Health and Rehabilitation Center, Inc.'s Response to Findings

Louisiana Health and Rehabilitation Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedules of findings and questioned costs. Louisiana Health and Rehabilitation Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, Louisiana Health and Rehabilitation Center, Inc.'s Board of Directors, others within the entity, the Louisiana Legislative Auditor, 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. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 29, 2020

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

SUMMARY OF FINDINGS AND RESPONSES

Year Ended June 30, 2019

2019-01 Engagement Completion and Submission

Condition: The financial statements and reports were not timely filed with the Legislative Auditor.

Cause: LHRC was understaffed this past year and was not able to have their books closed at an appropriate time to complete and submit the financial statements by December 31, 2019.

Effect: According to the Legislative Auditor of the State of Louisiana, failure to comply with the six-month statutory submission of the financial reports is a reportable instance of noncompliance with state law.

Criteria: L.R.S. 24:513 provides that the financial statements are to be filed with the Legislative Auditor within six months of the close of the fiscal year.

Auditor's Recommendation: It is recommended that LHRC hire the staff that is needed to have their books closed in a timely manner.

Management Response: Management acknowledges the condition as described above and agrees with the auditor's recommendation.

SUMMARY OF FINDINGS AND RESPONSES

Year ended June 30, 2018

NO FINDINGS NOTED



INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Louisiana Health and Rehabilitation Center, Inc. and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Louisiana Health and Rehabilitation Center (Entity) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2018 through June 30, 2019. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories:
 - a) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.
No Exceptions Noted.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
No Exceptions Noted.
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to

public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

No Exceptions Noted.

- c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

Not Applicable.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

No Exceptions Noted.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

No Exceptions Noted.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Not Applicable.

Collections (excluding EFTs)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

No Exceptions Noted.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

No Exceptions Noted.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

Exception: The same employee is responsible for both collecting cash and preparing/making deposits.

Management's Response/Corrective Action:

We are in the process of hiring additional staff to help with the separation of duties.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

Exception: The same employee is responsible for both collecting cash and posting collection entries to the general ledger.

Management's Response/Corrective Action:

We are in the process of hiring additional staff to help with the separation of duties.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No Exceptions Noted.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

No Exceptions Noted.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

No Exceptions Noted.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

No Exceptions Noted.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No Exceptions Noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Exception: All but one of the deposits tested were made within one business day of receipt.

Management's Response/Corrective Action:

We are in the process of hiring additional staff to help with the separation of duties.

- e) Trace the actual deposit per the bank statement to the general ledger.
No Exceptions Noted.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
No Exceptions Noted.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No Exceptions Noted.

- b) At least two employees are involved in processing and approving payments to vendors.

No Exceptions Noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
Exception: The employee responsible for processing payments is not prohibited from modifying vendor files.

Management's Response/Corrective Action:

The accountant will print out a vendor list quarterly for the Executive Director to approve.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

Exception: The same employee who processes payments is responsible for mailing out signed checks.

Management's Response/Corrective Action:

The accountant will process payments and get the required signatures. The accounting clerk will be responsible for mailing them out. We are in the process of hiring additional staff to assist with this.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

- a) Observe that the disbursement matched the related original invoice/billing statement.

No Exceptions Noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

No Exceptions Noted.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

No Exceptions Noted.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder.

Exception: There was no evidence that the monthly statement was reviewed and approved in writing by someone other than the card holder.

Management's Response/Corrective Action:

The executive Director will sign off on each monthly statement.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

No Exceptions Noted.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Exception: 2 of the 10 original receipts were missing.

Management's Response/Corrective Action:

The accountant will make sure that all receipts are turned in to the accounting department by forwarding additional emails to the managers and getting the Executive Director to hold them accountable when the procedures are not followed.

Payroll and Personnel

14. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

No Exceptions Noted.

15. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
No Exceptions Noted.
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
No Exceptions Noted.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
Not Applicable.
16. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
Not Applicable.
17. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.
No Exceptions Noted.

Other

18. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
No Exceptions Noted.
19. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.
No Exceptions Noted.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance.

Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

TWRU

CPAs & Financial Advisors
Baton Rouge, Louisiana
January 29, 2020