**Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Clinton, Louisiana
June 30, 1999**

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October 20, 1999

Independent Auditor's Report

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Clinton, Louisiana 70722

Gentlemen:

We have audited the accompanying consolidated balance sheets of the

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Clinton, Louisiana

as of June 30, 1999 and June 30, 1998, and the related consolidated statements of operations, member's equity and cash flows for the years then ended. These financial statements are the responsibility of the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary as of June 30, 1999 and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary has not presented the disclosures required by Governmental Accounting Standards board Technical Bulletin 98-1, "Disclosures about Year 2000 Issues", as amended by Governmental Accounting Standards Board Technical Bulletin 99-1, that the Governmental Accounting Standards Board has determined are necessary to supplement, although not be a part of, the basic financial statements. In addition, we do not provide assurance that Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary is or will be year 2000 compliant, that Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary does business will be year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued a report dated October 20, 1999, on our consideration of the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Yours truly,

Hawthorn, Waymouth, & Carroll L.L.P

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Consolidated Balance Sheets
June 30, 1999 and June 30, 1998

Assets

	1999	1998
Current Assets		
Cash	$105,922	$104,198
Accounts receivable		
Trade	159,116	120,113
Employee	21	1,612
Income tax		67,642
Prepaid expenses	4,949	6,689
Deferred tax asset	6,015	
Total current assets	276,023	300,254
Property and Equipment		
Net of accumulated depreciation	792,925	822,495
Total assets	1,068,948	1,122,749

Liabilities and Members' Equity (Deficit)

	1999	1998
Current Liabilities		
Accounts payable	31,900	27,907
Accrued expenses	81,790	119,726
Notes payable - related parties	978,592	978,617
Total current liabilities	1,092,282	1,126,250
Members' Equity (Deficit)	(23,334)	(3,501)
Total liabilities and members' equity (deficit)	1,068,948	1,122,749

The accompanying notes are an integral part of these statements.

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Consolidated Statements of Operations
Years Ended June 30, 1999 and June 30, 1998

	1999	1998
Revenue		
Net trainee revenue	$1,063,401	$1,213,808
Administrative fee	1,950	3,700
Food services	64,009	34,367
Other	31,444	2,495
Total revenue	1,160,804	1,254,370
Expenses		
Salaries	762,294	929,283
Contracted services	2,422	14,228
Supplies	20,196	35,670
General and administrative	129,110	188,531
Plant operations and maintenance	137,646	141,684
Insurance	24,361	32,203
Depreciation	45,660	44,015
Miscellaneous	20,851	15,766
Total operating expenses	1,142,540	1,401,380
Other Expenses		
Interest	6,432	100,035
Bad debts	37,680	
Total other expenses	44,112	100,035
Total expenses	1,186,652	1,501,415
Loss Before Income Tax Provision	(25,848)	(247,045)
Income Tax Benefit	6,015	
Net (Loss)	(19,833)	(247,045)

The accompanying notes are an integral part of these statements.

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Consolidated Statements of Members' Equity
Years Ended June 30, 1999 and June 30, 1998

	1999	1998
Balance, beginning of year as previously reported	($3,501)	$266,718
Cumulative effect on prior years of retroactive restatement for accounting change (Note 2)		(23,174)
Balance, beginning of year as restated	(3,501)	243,544
Net loss	(19,833)	(247,045)
Ending balance	(23,334)	(3,501)

The accompanying notes are an integral part of these statements.

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 1999 and June 30, 1998

	1999	1998
Cash Flows From Operating Activities		
Net loss	($19,833)	($270,219)
Adjustments to reconcile change in net loss to net cash provided by operating activities		
Bad debts	37,680	
Depreciation	45,660	44,015
(Increase) Decrease in accounts receivable	(76,683)	87,748
(Increase) Decrease in other receivables	69,233	(69,285)
Decrease in prepaid expenses	1,740	1,320
(Increase) in tax benefit	(6,015)	
Increase (Decrease) in accrued expenses	(37,936)	101,562
Increase (Decrease) in loans from officers	(25)	49,636
Increase in accounts payable	3,993	27,907
Net cash provided (used) by operating activities	17,814	(27,316)
Cash Flows From Investing Activities		
Purchases of fixed assets	(16,090)	(11,691)
Net cash provided (used) by investing activities	(16,090)	(11,691)
Net Increase (Decrease) in Cash and Cash Equivalents	1,724	(39,007)
Cash and Cash Equivalents, beginning of year	104,198	143,205
Cash and Cash Equivalents, end of year	105,922	104,198
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Taxes	None	$67,642
Interest	$6,432	$16,020

The accompanying notes are an integral part of these statements.

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 1999

Note 1-Significant Accounting Policies

A. Nature of Operations

The Challenge & Development Center of Clinton, Louisiana L.L.C. provides a highly military structured, residential program that provides 24-hour supervision, appropriate role models, consistency, education and therapy to address and treat today's troubled adolescent males who have a history of defiant behavior and conduct disorders. The Challenge & Development Center of Clinton, Louisiana L.L.C. is a taxable corporation for federal and state income tax purposes.

The Feliciana Alternative School, a subsidiary of the Center, was established to provide educational facilities and training to persons, primarily children and adolescents of undeveloped faculties, or suffering from mental distress or substance addiction, who are in need of special methods of training and instruction.

B. Consolidation Policy

The accompanying consolidated financial statements include the Center and its subsidiary, Feliciana Alternative School. Intercompany transactions and balances have been eliminated in consolidation.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

E. Fixed Assets

Fixed assets are recorded at cost and depreciated using the straight-line method of depreciation over their useful lives.

Note 1-Significant Accounting Policies (Continued)

F. Accounts Receivable

The Center considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

G. Net Trainee Service Revenue

Trainee Service Revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

H. Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the temporary difference between assets and liabilities recognized for financial reporting and such amounts recognized for tax purposes which requires recognition of deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized.

I. Advertising

Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 1999 and June 30, 1998 was $2,062 and $1,891, respectively.

J. Reclassifications

Certain reclassifications have been made to the 1998 financial statements to conform with classifications used in 1999.

Note 2-Accounting Change

During 1998, the company changed from the cash basis to the accrual basis of accounting. The company believes that the accrual basis more accurately reflects financial position and results of operations. Members' equity has been adjusted for the effect of retroactive application of the new method.

Challenge & Development Center
of Clinton, Louisiana, L.L.C. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 1999

Note 3-Property and Equipment

Property and equipment are as follows:

	1999	1998
Fixed assets		
Land	$10,000	$10,000
Buildings	710,346	698,496
Furniture and equipment	226,979	222,739
Transportation equipment	5,220	5,220
	952,545	936,455
Less accumulated depreciation	159,620	113,960
	792,925	822,495

Note 4-Concentration of Credit Risk

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the $100,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with their balances in cash and cash equivalents, to minimize this potential risk.

Note 5-Related Parties

Unsecured demand note to a party related to the trust which owns the Center, totaling $834,888, at June 30, 1999 and June 30, 1998, respectively. The notes were restructured to become noninterest bearing as of July 1, 1998. At June 30, 1998, interest was at 11.3%

Unsecured demand note to a company in which a party related to the trust which owns the Center, is the majority owner, totaling $143,729 at June 30, 1999 and June 30, 1998, respectively. The notes were restructured to become noninterest bearing as of July 1, 1998. At June 30, 1998, interest was at 11.3%.

Note 6-Income Taxes

The Company files its income tax return on a calendar year basis. Deferred income taxes reflect the tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Valuation allowances were established in 1997 in accordance with provisions of FASB Statement No. 109, "Accounting for Income Taxes". The valuation allowances are attributable to federal and state deferred tax assets.

Note 6-Income Taxes (Continued)

The deferred tax asset consists of the following:

Operating loss carryforward	$78,509
Depreciation	(35,849)
	42,660
Valuation allowance	(36,645)
Net deferred tax assets	6,015

The Company has available at June 30, 1999, $230,910 of unused operating loss carryforwards that may be applied against future taxable income. The carryforwards expire in 2018 and 2019. For financial reporting purposes, a valuation allowance of $36,645 was recognized for net operating loss carryforwards not anticipated to be realized before expiration.

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October 20, 1999

Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Challenge & Development Center of Clinton,
Louisiana, L.L.C. and Subsidiary
Clinton, Louisiana 70722

Gentlemen:

We have audited the consolidated financial statements of the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary as of and for the year ended June 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report in intended for the information of the audit committee, management and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Hawthorn, Waymouth & Carroll L.L.P.