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Professional Rehabilitation Services, Inc.

Baton Rouge, Louisiana

Financial Statements and Supplementary Information

Year Ended December 31, 1996

Professional Rehabilitation Services, Inc.

Baton Rouge, Louisiana

Financial Statements
and Supplementary Information

Year Ended December 31, 1996

Johnston, Silvio & Company (LLC)
CERTIFIED PUBLIC ACCOUNTANTS

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JOHNSTON, SILVIO & COMPANY (LLC)
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MEMBERS OF:
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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Professional Rehabilitation Services, Inc.
Baton Rouge, Louisiana

We have audited the accompanying balance sheet of Professional Rehabilitation Services, Inc., as of December 31, 1996, and the related statements of operations, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Professional Rehabilitation Services, Inc., as of December 31, 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Supplementary Schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

June 20, 1997 Johnston, Silvio & Company

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

BALANCE SHEET

December 31, 1996

ASSETS

CURRENT:		
Cash	$	17,245
Accounts receivable		18,771
Total Current Assets		36,016
PROPERTY AND EQUIPMENT:		
Depreciable assets		7,616
Less accumulated depreciation		7,513
Net Property and Equipment		103
OTHER:		
Net deferred income tax asset		2,816
Deposits		500
Total Other Assets		3,316
TOTAL ASSETS	$	39,435

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

LIABILITIES

CURRENT:	
Accounts payable	$ 23,118
Payroll taxes payable	2,003
Current portion of notes payable	21,152
Total Current Liabilities	46,273
LONG-TERM:	
Notes payable less current portion	92,264
OTHER:	
Due to affiliates	163,153
Due to officers	5,116
Total Other Liabilities	168,269
TOTAL LIABILITIES	306,806

STOCKHOLDERS' EQUITY

Retained earnings (deficit)	(267,371)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 39,435

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENT OF OPERATIONS

Year Ended December 31, 1996

REVENUES	$ 318,793
OPERATING EXPENSES	320,539
Loss from operations	(1,746)
OTHER INCOME (EXPENSE)	25,725
Net income before extraordinary items	23,979
LOSS OF DISPOSAL OF ASSETS	(39,703)
Net loss before taxes	(15,724)
PROVISION FOR INCOME TAX	2,816
Net Loss	$(12,908)

STATEMENT OF RETAINED EARNINGS (DEFICIT)

Year Ended December 31, 1996

Balance, January 1, 1996	$(254,463)
Net Income (Loss)	(12,908)
Balance, December 31, 1996	$(267,371)

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

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

Year Ended December 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	$(12,908)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	317
Loss on disposal of assets	39,703
(Increase) decrease in:	
Accounts receivable	45,019
Net deferred income tax asset	(2,816)
Increase (decrease) in:	
Accounts payable	(65,161)
Payroll taxes payable	(1,167)
Due from affiliates	40,507
Net cash provided (used) by operating activities	43,494
CASH FLOW FROM INVESTING ACTIVITIES:	
Net proceeds from sale of assets	54,144
CASH FLOWS FROM FINANCING ACTIVITIES:	
Debt reductions	(80,171)
Increase in due to officers	(1,384)
Net cash provided (used) by financing activities	(81,555)
NET INCREASE (DECREASE) IN CASH	16,083
CASH, BEGINNING OF YEAR	1,162
CASH, END OF YEAR	$ 17,245

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the business

Professional Rehabilitation Services, Inc. (the "Company"), was established to support various programs providing care and treatment to individuals requiring mental, developmental and rehabilitation services. The Company operates a number of programs located in Baton Rouge and New Orleans, Louisiana, including a halfway house to provide care and treatment for alcohol and drug abuse to chemically dependent adolescents, mental health and development diagnosis services, and a vocational transition service for foster children between the ages of sixteen and twenty-one.

Method of accounting

The Company's financial statements have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles.

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 and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 1996, there were no cash equivalents.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Programs are funded primarily through contractual agreements with the State of Louisiana, Department of Health and Hospitals, Division of Alcohol and Drug Abuse; the Medicaid program; and Grants through the Department of Social Services, Office of Community Services.

With the State of Louisiana as the Company's only creditor, all receivables are expected to be collectible. Therefore, no provision or liability for uncollectible accounts has been recognized in the accompanying financial statements. A significant reduction in the level of support provided by the State of Louisiana, if this were to occur, may have a significant effect on the Company's operations.

Property and equipment

All property and equipment is stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to earnings as incurred. Major expenditures for renewals and betterments are capitalized.

As a general rule, when items are retired or otherwise disposed, the accumulated depreciation is reduced by the accumulated amount of depreciation applicable thereto. Any gain or loss from such retirement or disposal is credited or charged to income.

Depreciation

Depreciation is computed on the straight-line and accelerated methods over the following estimated useful lives of the various classes of depreciable assets:

Furniture and fixtures	5 years
Equipment and machinery	5 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to use of different depreciation methods and lives for financial statement and income tax purposes, and use of net operating loss and tax credit carryforwards for income tax purposes. The deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation as of December 31, 1996, are as follows:

Furniture and fixtures	$ 2,167
Equipment	5,449
	7,616
Less accumulated depreciation	7,513
	$ 103

Depreciation expense for the year ended December 31, 1996, was $ 317.

NOTE C - RELATED PARTY TRANSACTIONS

The amount due from affiliates of $ 163,153 at December 31, 1996, is due from entities under common management. These amounts represent funds advanced to and from various entities under common management for various reimbursable operating expenses.

NOTE C - RELATED PARTY TRANSACTIONS (continued)

The amount due to officers at December 31, 1996, of $ 5,116 represents funds advanced by officers to the Company for current working capital needs. These amounts are due on demand and do not bear interest. It is not anticipated that this liability will be liquidated in the current period.

Baton Rouge Development Corporation, which shares common management with the Company, provided administrative and professional services related to the programs for the year ended December 31, 1996, totalling $ 36,000.

The Company entered into an agreement with Human Services Foundation, Inc., which shares common ownership with the Company, for the sale of property with a book value of 101,608. The proceeds from this asset sale were used to liquidate the related note payable secured by the equipment. The Company realized a loss on the sale of the asset of $39,703.

NOTE D - NOTES PAYABLE

Notes payable at December 31, 1996, consists of the following:

10.5% note payable to a local bank; payable in monthly installments of $ 2,000; secured by buildings	$ 58,123
12.5% note payable to a local bank; payable in monthly installments of $ 2,000; secured by operating equipment	1,256
10.5% note payable to a local bank; payable in semi-annual interest installments	50,005
12.5% note payable to a local bank; payable in monthly installments of $ 169; secured by guarantee of shareholder	4,032
	113,416

NOTE D - NOTES PAYABLE (Continued)

Less current portion	21,152
	$ 92,264

NOTE E - INCOME TAXES

Provisions for income taxes for the year ended December 31, 1996, are as follows:

Current	$ -
Deferred	(2,816)
	$(2,816)

Net deferred tax assets in the accompanying financial statements include the following components:

Deferred tax assets	$ 44,742
Deferred tax asset valuation allowance	(41,926)
	$ 2,816

As of December 31, 1996, the Company has $ 236,386 in loss carryforwards to offset future taxable income, which are due tp expire beginning in 2007. Additionally, the Company has $ 5,235 in tax credit carryforwards, arising from alternative minimum tax liabilities in prior years, which is available indefinitely for offset against future Federal tax liabilities.

NOTE F - SUPPLEMENTARY CASH FLOW INFORMATION

Cash payments for the year ended December 31, 1996, for:

Interest	$ 10,475
Income taxes	-

The Company had no noncash investing or financing activities for the year ended December 31, 1996.

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AUDITORS' REPORT ON INTERNAL CONTROLS

To the Shareholders
Professional Rehabilitation Services, Inc.
Baton Rouge, Louisiana

We have audited the financial statements of Professional Rehabilitation Services, Inc., as of and for the year ended December 31, 1996, and have issued our report thereon dated June 20, 1997.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

The management of Professional Rehabilitation Services, Inc., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of the inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure of future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Professional Rehabilitation Services, Inc., for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

Due to the limited number of personnel involved, it is not feasible to have an adequate system of internal accounting control due to lack of separation of duties. Active participation by the owners in the daily management of operations serves as an alternative control. This condition was considered in determining the nature, timing and extent of the audit tests applied in our audit.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management of Professional Rehabilitation Services, Inc., and the Louisiana Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

June 20, 1997 Johnston, Silvio & Company

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AUDITORS' REPORT ON COMPLIANCE

To The Shareholders
Professional Rehabilitation Services, Inc.
Baton Rouge, Louisiana

We have audited the basic financial statements of Professional Rehabilitation Services, Inc. as of and for the year ended December 31, 1996, and have issued our report thereon dated June 20, 1997.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grant agreements applicable to Professional Rehabilitation Services, Inc. is the responsibility of Professional Rehabilitation Services, Inc.'s management. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of Professional Rehabilitation Services, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants agreements. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the management of Professional Rehabilitation Services, Inc., and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

June 20, 1997 Johnston, Silvio & Company

SUPPLEMENTARY INFORMATION

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE I - SCHEDULE OF OPERATING EXPENSES

Year Ended December 31, 1996

Administrative expenses	$ 36,000
Auto and truck expense	5,522
Casual labor	2,909
Depreciation	317
Insurance	4,231
Legal and accounting	8,290
Licenses and taxes	2,376
Miscellaneous	53
Office expense	124
Payroll taxes	8,698
Postage	446
Professional and operating services	99,468
Repairs and maintenance	2,230
Salaries and wages	143,879
Supplies	2,645
Telephone	2,415
Travel	759
Utilities	177
Total Operating Expenses	$ 320,539

UNAUDITED - See auditors' disclaimer on supplementary information.

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE II - SCHEDULE OF OTHER INCOME/EXPENSE

Year Ended December 31, 1996

OTHER INCOME:	
Miscellaneous income	$ 200
Rent income	36,000
Total Other Income	36,200
OTHER EXPENSE:	
Interest expense	10,475
Total Other Expense	10,475
Total Other Income/(Expense)	$ 25,725

UNAUDITED - See auditors' disclaimer on supplementary information.