981 00958
5251

Professional Rehabilitation Services, Inc.

Baton Rouge, Louisiana

Financial Statements and Supplementary Information

Years Ended December 31, 1997 and 1996

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

13360 Coursey Boulevard
Baton Rouge, Louisiana 70816

MICHAEL D. JOHNSTON, CPA (P.C.)
RICHARD E. HAYDEN, CPA (P.C.)

WILLIAM D. MERCER, CPA

TELEPHONE (504) 755-0300
FAX (504) 755-0303

MEMBERS OF:
AMERICAN INSTITUTE
AND SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Professional Rehabilitation Services, Inc., as of December 31, 1997 and 1996, and the related statements of operations and retained earnings 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Professional Rehabilitation Services, Inc., as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were 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 audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Company's internal control structure dated April 22, 1998, and a report on its compliance with laws and regulations dated April 22, 1998.

April 22, 1998 Johnston & Hayden

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

BALANCE SHEETS

December 31,

	1997	1996
ASSETS		
CURRENT:		
Cash	$ 16,321	$ 17,245
Accounts receivable	112,440	18,771
Total Current Assets	128,761	36,016
PROPERTY AND EQUIPMENT:		
Depreciable assets	21,964	7,616
Less accumulated depreciation	9,663	7,513
Net Property and Equipment	12,301	103
OTHER:		
Deferred income taxes	31,868	42,632
Deposits	500	500
Total Other Assets	32,368	43,132
TOTAL ASSETS	$ 173,430	$ 79,251

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

	1997	1996
LIABILITIES		
CURRENT:		
Accounts payable	$ 81,733	$ 23,118
Payroll taxes payable	3,802	2,003
Current portion of notes payable	25,605	21,152
Total Current Liabilities	111,140	46,273
LONG-TERM:		
Notes payable less current portion	74,866	92,264
OTHER:		
Due to affiliates	163,153	163,153
Due to officers	5,116	5,116
Total Other Liabilities	168,269	168,269
TOTAL LIABILITIES	354,275	306,806
STOCKHOLDERS' EQUITY		
Retained earnings (deficit)	(180,845)	(227,555)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 173,430	$ 79,251

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years Ended December 31,

	1997	1996
REVENUES	$ 407,508	$ 318,793
OPERATING EXPENSES	376,921	320,539
Net profit from operations	30,587	(1,746)
OTHER INCOME (EXPENSE)	26,886	25,725
Net income before loss on disposal	57,473	23,979
GAIN (LOSS) OF DISPOSAL OF ASSETS	-	(39,703)
Net income (loss) before taxes	57,473	(15,724)
INCOME TAX EXPENSE (BENEFIT)	10,763	(2,816)
Net Income (Loss)	46,710	(12,908)
RETAINED EARNINGS (DEFICIT), beginning of year	(227,555)	(214,647)
RETAINED EARNINGS (DEFICIT), end of year	$(180,845)	$(227,555)

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

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operating activities (see Note F)	$ 26,370	$ 2,987
CASH FLOW FROM INVESTING ACTIVITIES:		
Net proceeds from sale of assets	-	54,144
Acquisition of property and equipment	(14,348)	-
Net cash provided (used) by investing activities	(14,348)	54,144
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of outstanding debt	(12,946)	(80,171)
Increase (decrease) in due to officers	-	(1,384)
Increase (decrease) in due to affiliates	-	40,507
Net cash provided (used) by financing activities	(12,946)	(41,048)
NET INCREASE (DECREASE) IN CASH	(924)	16,083
CASH, beginning of year	17,245	1,162
CASH, end of year	$ 16,321	$ 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.

Basis 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.

Significant estimates included in or affecting the presentation of the accompanying financial statements include provision for doubtful accounts and estimated useful lives of property and equipment.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 1997 and 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, 1997 and 1996, are as follows:

	1997	1996
Furniture and fixtures	$ 2,167	$ 2,167
Equipment	19,797	5,449
	21,964	7,616
Less accumulated depreciation	9,663	7,513
	$ 12,301	$ 103

Depreciation expense for the years ended December 31, 1997 and 1996, was $ 2,150 and $ 317, respectively.

NOTE C - RELATED PARTY TRANSACTIONS

The amount due from affiliates of $ 163,153 at December 31, 1997 and 1996, represents funds advanced to and from the Company and various entities under common management for various reimbursable operating expenses.

The amount due to officers at December 31, 1997 and 1996, totaling $ 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. Management does not anticipate 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 each of the years ended December 31, 1997 and 1996, totalling $ 36,000.

During the year ended December 31, 1996, 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, which is reflected in the accompanying financial statements.

NOTE D - NOTES PAYABLE

Notes payable at December 31, 1997 and 1996, consists of the following:

	1997	1996
10.5% note payable to a local bank; payable in monthly installments of $ 2,000; secured by buildings	$ 39,200	$ 58,123
12.5% note payable to local bank; payable in monthly installments of $ 2,000; secured by operating equipment	-	1,256

NOTE D - NOTES PAYABLE (continued)

10.5% note payable to a local bank; payable in semi-annual interest installments	50,005	50,005
12.5% note payable to a local bank; payable in monthly installments of $ 169; secured by guarantee of shareholder	1,823	4,032
Note payable to a local bank; payable in monthly installments of principal and interest; secured by vehicle	9,443	-
	100,471	113,416
Less current portion	25,605	21,152
	$ 74,866	$ 92,264

NOTE E - INCOME TAXES

A summary of the provisions for income taxes for the years ended December 31, 1997 and 1996, is as follows:

	1997	1996
Currently payable	$ -	$ -
Deferred	10,763	(2,816)
	$ 10,763	$(2,816)

NOTE E - INCOME TAXES (continued)

Deferred tax assets in the accompanying financial statements include the following components:

	1997	1996
Deferred tax assets	$ 32,196	$ 42,632
Deferred tax liability	328	-
	$ 31,868	$ 42,632

As of December 31, 1997 and 1996, the Company had $ 139,353 and $ 196,825 in loss carryforwards to offset future taxable income, which are due to expire beginning in 2007. Additionally, the Company had $ 5,235 in tax credit carryforwards at December 31, 1997 and 1996, 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 interest and income taxes for the years ended December 31, 1997 and 1996, are as follows:

	1997	1996
Income taxes	$ -	$ -
Interest	$ 9,114	$ 10,475

The Company had no noncash investing or financing activities for the years ended December 31, 1997 and 1996.

NOTE F - SUPPLEMENTARY CASH FLOW INFORMATION (continued)

Cash flows from operating activities for the years ended December 31, 1997 and 1996, are as follows:

	1997	1996
Net income (loss)	$ 46,710	$(12,908)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,150	317
Deferred income taxes	10,763	(2,816)
(Gain) loss on disposal of assets	-	39,703
(Increase) decrease in:		
Accounts receivable	(93,669)	45,019
Increase (decrease) in:		
Accounts payable	64,620	(65,161)
Payroll taxes payable	(4,204)	(1,167)
Net cash provided (used) by operating activities	$ 26,370	$ 2,987

NOTE G - PRIOR PERIOD ADJUSTMENT

Certain errors, resulting in the understatement of total assets in the Company's 1996 financial statements, have been corrected in the current year. This resulted in the following changes to retained earnings as of December 31, 1996:

As originally stated, December 31, 1996	$(254,463)
Adjustments:	
Understatement of deferred tax asset	39,816
As restated, December 31, 1996	$(214,647)

NOTE H - CONTINGENCIES

For the year ended December 31, 1997, the Company incurred administrative services which were provided by an unrelated party. The contract for these services stipulates that the Company does not pay for the services until the revenues for which these services were provided is received. As of December 31, 1997, the Company had received only a portion of these revenues, and the appropriate amount of administrative services were recognized in the accompanying financial statements. No liability for the unpaid fees has been recorded in the accompanying financial statements, since management is uncertain of the likelihood of receipt of the revenues and, therefore, the payment of the fees, as of the date of this report.

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

13360 Coursey Boulevard
Baton Rouge, Louisiana 70816

TELEPHONE (504) 755-0300
FAX (504) 755-0300

MICHAEL D. JOHNSTON, CPA (P.C.)
RICHARD E. HAYDEN, CPA (P.C.)

WILLIAM D. MERCER, CPA

MEMBERS OF:
AMERICAN INSTITUTE
AND SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

AUDITORS' REPORT ON INTERNAL CONTROLS

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, 1997, and have issued our report thereon dated April 22, 1998.

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, 1997, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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.

April 22, 1998 Johnston & Hoyd

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS
13360 Coursey Boulevard
Baton Rouge, Louisiana 70816
TELEPHONE (504) 755-0300
FAX (504) 755-0303

MICHAEL D. JOHNSTON, CPA (P.C.)
RICHARD E. HAYDEN, CPA (P.C.)
WILLIAM D. MERCER, CPA

MEMBERS OF:
AMERICAN INSTITUTE
AND SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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, 1997, and have issued our report thereon dated April 22, 1998.

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.

April 22, 1998 Johnston & Hayden

SUPPLEMENTARY INFORMATION

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE I - SCHEDULE OF OPERATING EXPENSES

Years Ended December 31,

	1997	1996
Administrative services	$ 131,595	$ 36,000
Auto expense	3,268	5,522
Casual labor	4,040	2,909
Depreciation	2,151	317
Insurance	6,149	4,231
Legal and accounting	-	8,290
Licenses and taxes	6,428	2,376
Miscellaneous	52	53
Office expense	5,553	124
Payroll taxes	8,954	8,698
Postage	-	446
Professional and operating services	39,525	99,468
Repairs and maintenance	1,342	2,230
Salaries and wages	148,117	143,879
Supplies	1,570	2,645
Telephone	5,118	2,415
Travel	423	759
Utilities	3,636	177
Total Operating Expenses	$ 376,921	$ 320,539

UNAUDITED - See auditors' disclaimer on supplementary information.

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE II - SCHEDULE OF OTHER INCOME/EXPENSE

Years Ended December 31,

	1997	1996
OTHER INCOME:		
Miscellaneous income	$ -	$ 200
Rent income	36,000	36,000
Total Other Income	36,000	36,200
OTHER EXPENSE:		
Interest expense	9,114	10,475
Total Other Income (Expense)	$ 26,886	$ 25,725

UNAUDITED - See auditors' disclaimer on supplementary information.