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

Table of Contents

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RETIRED

December 17, 1998

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 sheet of the

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

as of June 30, 1998, and the related consolidated statements of operations, member's equity and cash flows for the year 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 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. 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, "Disclosures about Year 2000 Issues", requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and

- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary has omitted such disclosures. We do not provide assurance that Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary is or will be year 2000 ready, 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 ready.

In our opinion, except for the omission of the information discussed in the preceding paragraph, 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, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 17, 1998 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 Sheet
June 30, 1998

Assets

Current Assets	
Cash	$104,198
Accounts receivable	
Trade	120,113
Employer	1,612
Income tax	67,642
Prepaid expenses	6,689
Total current assets	300,254
Property and Equipment	
Net of accumulated depreciation	822,495
Total assets	1,122,749

Liabilities and Members' Equity (Deficit)

Current Liabilities	
Accounts payable	$27,907
Accrued expenses	119,726
Notes payable - officers	978,617
Total current liabilities	1,126,250
Members' Equity (Deficit)	(3,501)
Total liabilities and members' equity	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 Statement of Operations
Year Ended June 30, 1998

Revenue	
Net trainee revenue	$1,248,175
Administrative fee	3,700
Other	2,495
	1,254,370
Expenses	
Salaries	929,283
Employee	7,011
Contracted services	14,228
Supplies	35,670
General and administrative	181,520
Plant operations and maintenance	141,684
Insurance	32,203
Depreciation	44,015
Miscellaneous	15,766
Total operating expenses	1,401,380
Other Expenses	
Interest	100,035
Total expenses	1,501,415
Net (Loss)	(247,045)

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary
Statement of Cash Flows
Year Ended June 30, 1998

Cash Flows From Operating Activities	
(Decrease) in net assets	($270,219)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	44,015
Decrease in accounts receivable	87,748
(Increase) in other receivables	(69,285)
Decrease in prepaid expenses	1,320
Increase in accrued expenses	101,562
Increase in loans from officers	49,636
Increase in accounts payable	27,907
Net cash provided (used) by operating activities	(27,316)
Cash Flows From Investing Activities	
Purchases of fixed assets	(11,691)
Net cash provided (used) by investing activities	(11,691)
Net Increase (Decrease) in Cash and Cash Equivalents	(39,007)
Cash and Cash Equivalents, June 30, 1997	143,205
Cash and Cash Equivalents, June 30, 1998	104,198

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:	
Taxes	$67,642
Interest	$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, 1998

Note 1-Significant Accounting Policies

A. Nature of Operations

The Challenge & Development Center of Clinton, Louisiana L.L.C. provides a highly military structured 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 taxable for federal and state income tax purposes as a corporation.

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.

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.

Note 1-Significant Accounting Policies (Continued)

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. Advertising

Advertising costs are charged to operations when incurred. Advertising expense for the year ended June 30, 1998 was $1,891.

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.

Note 3-Property and Equipment

Property and equipment are as follows:

Fixed assets	
Land	$10,000
Buildings	698,496
Furniture and equipment	222,739
Transportation equipment	5,220
	936,455
Less accumulated depreciation	113,960
	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.

Challenge & Development Center of Clinton, Louisiana, L.L.C. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 1998

Note 5-Notes Payable - Officers

Loans from officers consist of various unsecured demand notes totaling $978,617 at June 30, 1998 with interest at 11.3%.

Note 6-Income Taxes

The Company has available at June 30, 1998, $61,502 of unused operating loss carryforwards that may be applied against future taxable income. The carryforwards expire in various years from 1999 to 2114.

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December 17, 1998

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, 1998, and have issued our report thereon dated December 17, 1998, which was qualified due to the omission of the year 2000 disclosures that are required by Governmental Accounting Standards Board Technical Bulletin 98-1, "Disclosures about Year 2000 Issues". 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. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.