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CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)

FINANCIAL REPORT AND SUPPLEMENTARY INFORMATION

JUNE 30, 1998 AND 1997

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date [illegible]

CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)
JUNE 30, 1998 AND 1997

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Bernard & Franks
A Corporation of Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
Crossroads Louisiana, Inc.
New Orleans, Louisiana

We have audited the consolidated statements of financial position of Crossroads Louisiana, Inc. (a nonprofit organization) as of June 30, 1998 and 1997 and the related consolidated statements of activities, consolidated statements of cash flows and consolidated statements of functional expenses for the years ended June 30, 1998 and 1997. These financial statements are the responsibility of the Organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Crossroads Louisiana, Inc. as of June 30, 1998 and 1997 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 15, 1998 on our consideration of Crossroads Louisiana, Inc.'s internal control structure and its compliance with laws and regulations.

December 15, 1998

Bernard + Franks

LIABILITIES AND NET ASSETS

	1998	1997
CURRENT LIABILITIES		
Accounts payable, trade	$ 44,869	$ 39,270
Accrued expenses:		
Salaries and payroll taxes	56,541	55,107
Pension Plan	25,550	62,822
Other	10,837	7,746
Note payable - current	1,107	2,173
Notes payable - current maturities	17,242	--
Damage claim payable - current maturities	15,600	15,600
Total current liabilities	$171,746	$182,718
LONG-TERM DEBT, less current maturities		
Notes payable	$ 26,852	$ --
Deferred compensation	210,475	177,681
Deferred severance pay	30,000	21,392
Damage claim payable	27,420	40,244
	$294,747	$239,317
NET ASSETS		
Unrestricted	$425,363	$388,796
Total net assets	$425,363	$388,796
	$891,856	$810,831

CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)

CONSOLIDATED STATEMENTS OF ACTIVITIES
Year Ended June 30, 1998 and 1997

UNRESTRICTED NET ASSETS

	1998	1997
Revenues, gains and support:		
Public support, government:		
Fees	$1,850,080	$1,867,022
Other income:		
Rents	95,112	105,089
Investment income (losses) and other	(47,889)	7,339
Total revenues, gains and support, unrestricted	$1,897,303	$1,979,450
Expenses:		
Program services		
Olivier Street Program	$ 105,423	$ 103,200
Arts Street Program	99,290	91,908
State Street Program	336,620	322,647
Toledano Street Program	224,978	216,562
Timberwood Street Program	100,394	96,613
Nunez Street Program	303,245	293,664
RHS	79,941	58,166
Hancock Street / Cher-Ami	280,037	297,489
Total program services	$1,529,928	$1,480,249
Supporting services		
Management and general	$ 330,808	$ 354,105
Total expenses	$1,860,736	$1,834,354
Increase in unrestricted net assets	$ 36,567	$ 145,096
Net assets, beginning of year	388,796	243,700
Net assets, end of year	$ 425,363	$ 388,796

The Notes to Financial Statements are an integral part of these statements.

CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 1998 and 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 36,567	$145,096
Adjustments to reconcile net cash provided (used) by operating activities:		
Deferred compensation and severance pay plans	41,402	52,306
Depreciation and amortization	34,633	33,731
Unrealized loss on investments	49,417	--
(Increase) decrease in accounts receivable trade	27,412	2,649
(Increase) decrease in other receivables and advances	(4,451)	(19,352)
(Increase) decrease in prepaid expenses	6,008	(3,479)
(Increase) decrease in deposits	--	(51)
Increase (decrease) in accounts payable, trade	5,599	(13,788)
Increase (decrease) in accrued expenses	(32,747)	9,656
Increase (decrease) in damage claims payable	(12,824)	(12,131)
Net cash provided by operating activities	$151,016	$194,637
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	$ (71,287)	$ (60,225)
Purchases (sales) of investments, net	19,085	(54,061)
Purchase of licenses to operate	(3,215)	(11,258)
Net cash used by investing activities	$ (55,417)	$(125,544)

(CONTINUED)

CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
Years Ended June 30, 1998 and 1997

	1998	1997
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	$ 53,879	$ --
Payments on long-term borrowings	(10,851)	(4,508)
Net cash provided by (used in) financing activities	$ 43,028	$ (4,508)
Net increase (decrease) in cash and cash equivalents	$138,627	$ 64,585
Cash and cash equivalent, beginning of year	218,023	153,438
Cash and cash equivalent, end of year	$356,650	$218,023

	1998	1997
SUPPLEMENT DISCLOSURES OF CASH INFORMATION		
CASH PAYMENTS FOR:		
Interest	$ 2,637	$ 419

The Notes to Financial Statements are an integral part of these financial statements.

Program Services: Nunez Street Program	Program Services: Hancock Street Program	Program Services: RHS Program	Program Totals	Supporting Services Management & General	Grand Totals
$135,323	$117,497	$ 62,909	$ 733,605	$160,424	$ 894,029
7,636	6,223	4,054	40,678	5,790	46,468
6,766	5,875	3,145	36,680	8,021	44,701
10,811	9,402	5,038	58,646	11,670	70,316
--	--	--	--	46,854	46,854
20,664	21,068	--	83,416	--	83,416
7,841	4,679	148	31,975	2,656	34,631
5,680	8,523	4	43,191	--	43,191
279	1,727	35	9,021	905	9,926
21	250	272	3,811	379	4,190
1,509	209	206	5,619	215	5,834
1,163	--	--	6,072	187	6,259
17,400	15,900	--	94,729	10,465	105,194
5,501	3,832	--	31,124	551	31,675
4,847	4,042	2,194	21,701	2,244	23,945
14,632	21,954	671	73,921	25,320	99,241
59,442	54,390	150	224,233	48,606	272,839
2,934	3,533	579	25,858	2,340	28,198
796	933	536	5,648	4,181	9,829
$303,245	$280,037	$ 79,941	$1,529,928	$330,808	$1,860,736

Program Services: Nunez Street Program	Hancock Street Program	RHS	Program Totals	Supporting Services Management & General	Grand Totals
$127,842	$108,668	$ 45,483	$ 678,982	$181,906	$ 860,888
218	1,681	--	2,839	5,238	8,077
6,392	5,434	2,274	33,949	9,095	43,044
14,932	13,467	5,504	79,176	14,369	93,545
--	--	--	--	52,306	52,306
21,374	21,374	--	84,511	--	84,511
5,746	2,182	148	26,282	7,449	33,731
5,608	7,514	--	40,304	--	40,304
334	553	--	3,139	--	3,139
327	83	--	4,924	83	5,007
1,416	2,146	35	9,934	487	10,421
1,168	1,546	--	7,218	211	7,429
14,400	21,300	--	89,629	10,465	100,094
--	--	--	--	--	--
5,975	4,912	--	32,108	606	32,714
15,334	16,197	1,873	65,842	2,724	68,566
5,765	5,815	2,227	34,921	14,945	49,866
60,640	72,950	36	241,100	44,310	285,410
5,561	10,363	202	39,987	5,843	45,830
632	1,304	384	5,404	4,068	9,472
$293,664	$297,489	$ 58,166	$1,480,249	$354,105	$1,834,354

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Operations

Crossroads Louisiana, Inc. is a nonprofit corporation which provides residential treatment services for the psychologically handicapped in the New Orleans area and is substantially funded by the State of Louisiana.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. As permitted by this new Statement, the Organization has discontinued its use of fund accounting for external reporting and has, accordingly, reclassified its financial statements to present the three classes of net assets required.

At present, all of the Organizations funds are included in the Unrestricted category. Should the Organization receive funds that are donor restricted or should the Board of Directors decide to make some funds restricted, they would be classified as required by the new Statement.

Consolidated Financial Statements

Following the guidance of Statement of Position 94-3, the financial statement include the accounts of the Organization and the accounts of Cher-Ami Homes of Gretna, LA., Inc. The Organization obtained control of the Cher-Ami Home early in the 1996 fiscal year and has assumed control of its operations. All significant intercompany transactions and accounts are eliminated in consolidation. In the Statement of Functional Expenses, the operations of Cher-Ami Homes are labeled Hancock Street.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Equipment and Improvements

Equipment and improvements are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. The fair value of donated property is similarly capitalized.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Revenues

Most of the programs are reimbursed on a per diem rate based on costs and budgets reviewed annually by the State of Louisiana.

Some programs are funded by the State on a monthly basis as expenses are incurred. However, expense categories are capped by an approved budget.

At the conclusion of a grant award period, the Organization is liable to the State granting agency for the excess of program revenues over allowable costs on old grants funded in advance. Such amounts, if any, may be encumbered for allowable program costs in the next succeeding period or returned to the granting agency, at the option of such agency.

Some funding is also derived from reimbursement charges to clients, who have the ability to pay for services rendered and from solicitations of public contributions.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Retirement Plan

The organization has a non-contributory defined contribution retirement plan covering substantially all of its employees. The organization's policy is to fund the retirement cost accrued on a current basis.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications based on State of Louisiana Rate Setting classifications. Shared expenses are allocated among programs based on portion of direct expenses by program to total expenses.

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.

Allowance For Doubtful Accounts

Since all accounts receivables, trade are due from governmental agencies, no allowance for doubtful accounts is considered necessary. Any billing adjustments needed are made in the year determined. Any refunds of over billing or cost adjustments due are netted against the accounts receivable account. At June 30, 1998, approximately $84,000 of "Extraordinary Cost Overbillings" have been netted against accounts receivable.

CROSSROADS LOUISIANA, INC.
(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998 AND 1997

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of operating funds maintained in checking and operating accounts. Any investments in money market accounts, certificates of deposit or other investments and maturities of three months or less would also be considered cash and cash equivalents. Investments of longer terms would be classified as Investments.

Note 2. Due from Officer

The amount due from officer represents an unsecured advance to an officer. No interest payments are required.

Note 3. Property and Equipment

Property and equipment consist of the following:

	1998	1997	Depreciation/ Amortization-Annual Rates
Leasehold improvements	$218,770	$211,602	5-20 percent
Equipment and furniture and fixtures	173,643	174,763	20 percent
Vehicles	56,880	--	20 percent
	$449,293	$386,365	

Depreciation and amortization expense charged to income was $34,633 for 1998 and $33,721 for 1997.

Note 4. Investments

The Organization's investments at June 30, 1998 and 1997 consist of shares of various mutual funds. The investments are being held primarily to fund the obligations due on the deferred compensation plan and the severance plan obligation.

	Cost	Market	Unrealized Gain (Loss)
1998			
Mutual Funds	$128,488	$ 79,071	$ (49,417)
1997			
Mutual Funds	$143,063	$147,573	$ 4,510

Investment income for 1998 is summarized as follows:

Dividend income, fees	$ 2,385
Realized gains and (losses), net	(1,333)
Unrealized gain and (losses), net	(49,417)
	$ (48,365)

Note 5. Long-Term Debt and Current Maturities

Long-term debt and current maturities consisted of the following at June 30, 1998:

	Current	Long-Term
Note payable finance company, dated 9/1/97, in the original amount of $7,371 and payable in 36 monthly payments of $249. Note bears interest at 13% and is secured by equipment.	$ 2,365	$ 3,403
Note payable bank, dated 9/11/97, in the original amount of $25,054 and payable in 36 monthly payments of $805. Note bears interest at 9.73% and is secured.	8,126	11,330
Note payable to bank, dated 12/15/97, in the original amount of $21,453 and payable in 36 monthly payments of $700. Note bears interest at 10.8% and is secured.	6,751	12,119
Totals	$ 17,242	$ 26,852

Interest expense on all notes amounted to $2,637 for 1998 and $419 for 1997.

The aggregate long-term debt maturity during the next five years is as follows:

1999	$ 17,242
2000	$ 19,872
2001	6,980
	$ 28,852

Note 6. Leases

The Organization leases its administrative and residential facilities under various lease agreements.

The Cleary Street administrative office is leased from an officer of the Organization. The lease is executed on a year-to-year basis and payment is based on actual interest, real estate taxes, depreciation and repairs in accordance with State of Louisiana Rate Setting Administration requirements. Total lease expense for the property was $3,000 for each of the years 1998 and 1997.

The Olivier Street facility is leased from an officer of the Organization. This lease is executed on a year-to-year basis and payment is based on fair market value. Total lease expense for the property totaled $22,394 for each of the years 1998 and 1997. One third of the facility is used for administration and the other two thirds as a residential facility.

The Nunez Street facility is leased from an officer of the Organization for $1,200 per month.

The Solon Street residential facility was leased for $1,350 per month beginning in October, 1995 and ending in December, 1996.

The Hancock Street residential facility is leased from an officer of the Organization on a monthly basis for $1,200 per month.

The State Street residential facility is leased for a six year term commencing August 1, 1991 and ending July 31, 1997. The monthly payment is adjusted annually for inflation and certain cost increases. The current payment is $675 per month.

(Continued)

Note 6. Leases (Continued)

The Toledano Street residential facility is leased for a three year term commencing September 1, 1995 and ending August 31, 1998. The monthly payment is $1,125.

The facility on Timberwood is leased from an officer of the Organization for $700 per month.

The Arts Street residential facility is leased at a monthly rental of $750.

The State Street, Nunez and Toledano and Hancock facilities rent vans which are owned by an officer of the Organization for $500 per month. Total van rentals for the year totaled $12,000 for 1998 and $24,425 for 1997.

Rental expense for all facility leases totalled $105,194 and $100,094 for the years ended June 30, 1998 and 1997.

The following is a schedule of the future minimum lease payments for long-term lease contracts and assuming that all the leases are extended to June 30, 2000.

Year Ending June 30,	
1999	$ 87,944
2000	87,944
	$175,888

Note 7. Retirement Plan

The Organization has a non-contributory defined contribution retirement plan which covers substantially all of its employees.

Contributions to the defined contribution retirement plan are determined at the discretion of the Organization's Board of Directors. Contributions were determined to be 5% of each employee's compensation for the years ended June 30, 1998 and 1997. The expense totaled $44,701 and $43,044 for the years 1998 and 1997. The plan is funded currently.

Note 8. Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Note 9. Officers Compensation

Officers compensation was as follows for the years ended June 30, 1998 and 1997:

	1998	1997
Executive Director	$ 61,404	$101,154
Assistant Director	43,176	39,385
	$104,580	$140,539

Note 10. Related Party Transactions

The Organization paid Job Link, Inc. approximately $199,000 in 1998 and $189,000 in 1997 in fees for professional services. Job Link, Inc. provides job development services for group home programs in accordance with State of Louisiana regulations. Job Link, Inc. is owned by members of the Organization's Board of Directors. At June 30, 1998 and 1997, $718 and $15,581, respectively, was due from Job Link, Inc. and is shown in Due From Affiliates.

The Organization also leases some property and equipment from an officer. See Note 6 for details.

During September, 1995 the Organization took over control of the operations of the Cher-Ami Homes of Gretna, LA., Inc. Cher-Ami's major assets consisted of its contract with the State of Louisiana and the related accounts receivable. Cher-Ami also had past due payroll taxes of $29,000 and a damage claim payable in the amount of $93,200. At June 30, 1998, Cher-Ami owes approximately $15,000 in payroll taxes and the damage claim amount is $43,020. The damage claim is being paid off in 60 monthly payments of $1,300. This damage claim has been recorded at its net present value and $15,600 of the claim has been classified as current. The intercompany account of $113,091 and $95,439 at year ends 1998 and 1997 has been eliminated in consolidation.

Cher-Ami has signed a consulting services agreement with its former director which called for twenty monthly payments of $1,250 commencing on March 6, 1996. All payments have been made.

Note 11. Deferred Compensation Agreement

The Organization has entered into a deferred compensation agreement with one of its officers effective July 1, 1993. The agreements provides that upon reaching age 65, the officer will receive monthly compensation commencing with retirement and continuing for the rest of his life. The monthly payment is calculated to be (1/12) one twelfth of his deferred payment amount which will be equal to the average of his highest 3 consecutive calendar years compensation including bonuses. In the event of his death, on or after the participant's Normal Retirement Date, the participant's designated beneficiary shall be paid a death benefit equal to the present value of the future payments to which the participant would have been entitled. The liability related to this agreement is being accrued to age 65. The amount charged to expense totaled $39,354 and $44,000 for the years ended June 30, 1998 and 1997. The total liability under the agreement as of June 30, 1998 is approximately $210,000.

The Organization's actuary has calculated that eight annual installments of $39,354 payable at the end of each fiscal year from July 1, 1996 through July 1, 2002 will be needed to fund the plan obligation.

The Organization also has an employment agreement with one of its officers which calls for the payment to her or her beneficiary the total in the Severance Pay account. The Organization shall set aside in a segregated corporate account the lesser of $7,500 or 20% of the officers regular salary into this Severance Pay account. The amount charged to expense in June 30, 1998 and 1997 amounted to $7,500 for each year.

The Organization has invested $79,071 in mutual funds to provide funding for these two agreements. These funds are available to the Organizations general creditors. At June 30, 1998 the plan was under-funded by approximately $132,000.

Note 12. Contingencies

At June 30, 1998, the Organization had approximately $90,000 in cash deposits in major banks in excess of the $100,000 limit insured by the Federal Deposit Insurance Corporation. Our average outstanding cash balances at our banks is normally below the insured limits and therefore the Organization's loss exposure is minimal.

One of our funding sources has requested the repayment of Title XIX (Medicaid) funding provided to some of our clients in the amount of approximately $40,000 to $60,000 due to questions related to the client's eligibility for such funding. We intend to vigorously defend ourselves against this claim.

SUPPLEMENTARY INFORMATION

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A Corporation of Certified Public Accountants

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SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Crossroads Louisiana, Inc.
New Orleans, Louisiana

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bernard + Franks

December 15, 1998

Program Services				Supporting	
Nunez Street Program	Hancock Street Program	RHS Program	Program Totals	Supporting Services Management & General	Grand Totals
$365,610	$324,239	$130,501	$1,850,080	$ --	$1,850,080
9,975	16,292	--	95,112	--	95,112
--	--	--	--	(48,365)	(48,365)
--	--	--	9	467	476
$375,585	$340,531	$130,501	$1,945,201	$ (47,898)	$1,897,303
$135,323	$117,497	$ 62,909	$ 733,605	$160,424	$ 894,029
7,636	6,223	4,054	40,678	5,790	46,468
6,766	5,875	3,145	36,680	8,021	44,701
10,811	9,402	5,038	58,646	11,670	70,316
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20,664	21,068	--	83,416	--	83,416
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1,163	--	--	6,072	187	6,259
17,400	15,900	--	94,729	10,465	105,194
5,501	3,832	--	31,124	551	31,675
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14,632	21,954	671	73,921	25,320	99,241
59,442	54,390	150	224,233	48,606	272,839
2,934	3,533	579	25,858	2,340	28,198
796	933	536	5,648	4,181	9,829
$303,245	$280,037	$ 79,941	$1,529,928	$330,808	$1,860,736
$ 64,695	$ 61,411	$ 17,055	$ 330,808	$(330,808)	$ --
$ 7,645	$ (916)	$ 33,505	$ 84,465	$ (47,898)	$ 36,567

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To the Board of Directors
Crossroads Louisiana, Inc.
New Orleans, Louisiana

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Crossroads Louisiana, Inc. as of and for the year ended June 30, 1998, and have issued our report thereon dated December 15, 1998. 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 Crossroads Louisiana, Inc.'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 Crossroads Louisiana, Inc.'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Crossroads Louisiana, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The reportable conditions noted are described in the accompanying Schedule 2 - Reportable Condition - Financial Statements - Current Year:

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

This report is intended for the information of the Board of Directors, management and State of Louisiana and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bernard + Franks

December 15, 1998

CROSSROADS LOUISIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 1998

SUMMARY OF AUDIT RESULTS

1. The independent auditor's report on the financial statements expressed an unqualified opinion.

2. Reportable conditions disclosed during the audit of the financial statements are reported in Schedule # 2 which follows. None of the reportable conditions are considered to be material weaknesses.

3. No instances of noncompliance considered to be material to the financial statements were disclosed by the audit.

4. No management letter was issued during this period.

5. There were no major programs during this year and therefore Crossroads Louisiana, Inc. was not subject to OMB Circular A-133.

6. The threshold for distinguishing Types A and B programs was $300,000. There were no major program this year.

7. Crossroads Louisiana, Inc. was not determined to be a low-risk auditee.

CROSSROADS LOUISIANA, INC.
REPORTABLE CONDITIONS - FINANCIAL STATEMENTS - CURRENT YEAR
YEAR ENDED JUNE 30, 1998

In small organizations, such as Crossroads Louisiana, Inc., proper separation of duties of difficult to maintain because of the limited number of people involved in the processing of transactions. Also, the cost-benefit relationship must be considered in implementing additional separation of the existing duties. Separation of duties means the flow of a transaction should be designed so that the work done by one individual is either independent of or serves as a check on, the work of another. A separation of duties weakness exist in the cash disbursement area of the accounting system in that the same person prepared the checks, signs and mails the checks, and performs the bank reconciliation procedures.

CROSSROADS LOUISIANA, INC.
SUMMARY OF PRIOR YEAR'S AUDIT FINDINGS
YEAR ENDED JUNE 30, 1998

Our prior year's audit findings included a reportable condition stating that separation of duties weaknesses exist in our payroll, purchasing and cash disbursement areas of our accounting system.

In order to correct the payroll system problem, we now have our payroll processed by an outside service processing company. In addition, our accountant prepares a monthly analytic review schedule for management which shows: hours, rates and dollars by month and by program in comparison to budget and expected. Management also reviews the payroll totals in total and by program each month. We feel that we now have adequate control over our payroll processing.

In order to correct the separation of duty problem in purchasing, we have now re-assigned that job to another person not directly involved in the accounting processing system.

We are still trying to economically solve the separation of duties weakness in the cash area. See current year's findings for more details.

The above separation of duties weaknesses have been reported on for several years because of the small size of our accounting staff.

CROSSROADS LOUISIANA, INC.
MANAGEMENT'S CORRECTIVE ACTION PLAN FOR CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 1998

In order to correct the present separation of duties weakness in the cash area of our accounting system, we are considering making the following changes in our system:

1. Having one of our Directors sign all checks after they are prepared.

2. Having someone other than the preparer of the check, mail the checks.

3. Having our outside CPA prepare the monthly bank reconciliations.

There are still some cost and logistic problems that must be worked our before reaching a final solution to this problem.

Dr. Gerald Murphy will be the contact person in making the final decisions. We plan to have the new system in place in early 1999.