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Professional Rehabilitation Services, Inc.

Baton Rouge, Louisiana

Financial Statements
and Supplementary Information

Years Ended December 31, 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 7-14-99

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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, 1998 and 1997, 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, 1998 and 1997, 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 Supplementary Schedules I and II 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 June 10, 1999, and a report on its compliance with laws and regulations dated June 10, 1999.

June 10, 1999 Johnston & Hayden

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

BALANCE SHEETS

December 31,

		1998		1997
ASSETS				
CURRENT:				
Cash and cash equivalents	$	12,113	$	16,321
Accounts receivable		98,684		112,440
Total Current Assets		110,797		128,761
PROPERTY AND EQUIPMENT:				
Depreciable assets		21,964		21,964
Less accumulated depreciation		12,533		9,663
Net Property and Equipment		9,431		12,301
OTHER:				
Deferred income taxes		26,518		31,868
Deposits		500		500
Total Other Assets		27,018		32,368
TOTAL ASSETS	$	147,246	$	173,430

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

	1998	1997
LIABILITIES		
CURRENT:		
Accounts payable	$ 23,297	$ 81,733
Payroll taxes payable	3,275	3,802
Current portion of notes payable	20,234	25,605
Total Current Liabilities	46,806	111,140
LONG-TERM:		
Notes payable less current portion	55,107	74,866
OTHER:		
Due to affiliates	163,153	163,153
Due to officers	-	5,116
Total Other Liabilities	163,153	168,269
TOTAL LIABILITIES	265,066	354,275
STOCKHOLDERS' EQUITY		
Retained earnings (deficit)	(117,820)	(180,845)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 147,246	$ 173,430

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years Ended December 31,

	1998	1997
REVENUES	$ 301,589	$ 407,508
OPERATING EXPENSES	263,014	376,921
Net profit from operations	38,575	30,587
OTHER INCOME (EXPENSE)	29,800	26,886
Net income before taxes	68,375	57,473
INCOME TAX EXPENSE	5,350	10,763
Net Income	63,025	46,710
RETAINED EARNINGS (DEFICIT), beginning of year	(180,845)	(227,555)
RETAINED EARNINGS (DEFICIT), end of year	$(117,820)	$(180,845)

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,

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 63,025	$ 46,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,870	2,150
Deferred income taxes	5,350	10,763
(Increase) decrease in:		
Accounts receivable	13,756	(93,669)
Increase (decrease) in:		
Accounts payable	(58,436)	64,620
Payroll taxes payable	(527)	(4,204)
Net cash provided by operating activities	26,038	26,370
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	-	(14,348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of outstanding debt	(25,130)	(12,946)
Increase (decrease) in due to officers	(5,116)	-
Net cash provided (used) by financing activities	(30,246)	(12,946)
NET INCREASE (DECREASE) IN CASH	(4,208)	(924)
CASH AND CASH EQUIVALENTS, beginning of year	16,321	17,245
CASH AND CASH EQUIVALENTS, end of year	$ 12,113	$ 16,321

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. The Company regularly assesses these estimates and, while actual results could differ, management believes that the estimates are reasonable.

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.

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.

Advertising

The Company expenses the production cost of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. As of December 31, 1998 and 1997, the Company had no direct-response advertising classified as assets, and all other advertising was expensed as incurred.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 1998 and 1997, were as follows:

	1998	1997
Cash on hand	$ -	$ -
Cash in bank - checking	12,113	16,321
	$ 12,113	$ 16,321

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation as of December 31, 1998 and 1997, are as follows:

	1998	1997
Furniture and fixtures	$ 2,167	$ 2,167
Equipment	19,797	19,797
	21,964	21,964
Less accumulated depreciation	12,533	9,663
	$ 9,431	$ 12,301

Depreciation expense for the years ended December 31, 1998 and 1997, was $ 2,870 and $ 2,150, respectively.

NOTE D - RELATED PARTY TRANSACTIONS

The amount due from affiliates of $ 163,153 at December 31, 1998 and 1997, represents funds advanced to and from the Company and various entities under common management for various reimbursable operating expenses. These amounts do not bear interest and have no set payment or settlement date. Management does not anticipate that these liabilities will be liquidated within the current period.

The amount due to officers at December 31, 1997, totaling $ 5,116, represents funds advanced by officers to the Company for current working capital needs. This loan was liquidated during the year ended December 31, 1998. No amounts were due to the officer at December 31, 1998.

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, 1998 and 1997, totalling $ 36,000.

NOTE D - RELATED PARTY TRANSACTIONS (continued)

The Company utilizes facilities owned by its shareholder for its operations in Baton Rouge, Louisiana. No rent is paid or accrued for the use of these facilities. Additionally, the Company shares office facilities and equipment with companies which share common ownership and management with the Company. No rental or depreciation expense is recorded by the Company.

NOTE E - NOTES PAYABLE

Notes payable at December 31, 1998 and 1997, consists of the following:

	1998	1997
10.5% note payable to a local bank; payable in monthly installments of $ 2,000; secured by buildings	$ 20,032	$ 39,200
Note payable to local bank; payable in monthly installments; secured by operating equipment	5,330	-
10.5% note payable to a local bank; payable in semi-annual interest installments	49,979	50,005
12.5% note payable to a local bank; payable in monthly installments of $ 169; secured by guarantee of shareholder	-	1,823
Note payable to a local bank; payable in monthly installments of principal and interest; secured by vehicle	-	9,443
	75,341	100,471
Less current portion	20,234	25,605
	$ 55,107	$ 74,866

NOTE F - LEASE COMMITMENTS

The Company leases its New Orleans facilities from an unrelated party under an operating lease. Rental expense under this lease, which is renewable annually, totalled $ 6,000 and $ 9,000 for the years ended December 31, 1998 and 1997, respectively.

NOTE G - INCOME TAXES

A summary of the provisions for income taxes for the years ended December 31, 1998 and 1997, is as follows:

	1998	1997
Current	$ -	$ -
Deferred	5,350	10,763
	$ 5,350	$ 10,763

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

	1998	1997
Deferred tax assets	$ 26,790	$ 32,196
Deferred tax liability	272	328
	$ 26,518	$ 31,868

As of December 31, 1998 and 1997, the Company had $ 80,355 and $ 147,629 in loss carryforwards to offset future taxable income, which are due to expire beginning in 2008. Additionally, the Company had $ 5,235 in tax credit carryforwards at December 31, 1998 and 1997, arising from alternative minimum tax liabilities in prior years, which is available indefinitely for offset against future Federal tax liabilities.

NOTE H - SUPPLEMENTARY CASH FLOW INFORMATION

Cash payments for interest and income taxes for the years ended December 31, 1998 and 1997, are as follows:

	1998	1997
Income taxes	$ -	$ -
Interest	$ 6,074	$ 9,114

The Company had no noncash investing or financing activities for the years ended December 31, 1998 and 1997.

NOTE I - 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

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wrong title: This is the Internal Control Report

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., for the years ended December 31, 1998 and 1997, and have issued our report thereon dated June 10, 1999.

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.

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 audits of the basic financial statements of Professional Rehabilitation Services, Inc., for the years ended December 31, 1998 and 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 material weaknesses as defined above.

This report is intended for the information of the management and stockholders 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 10, 1999 Johnston & Hayden

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AUDITORS' REPORT ON COMPLIANCE

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

We have audited the basic financial statements of Professional Rehabilitation Services, Inc., as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated June 10, 1999.

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.

Compliance with laws, regulations, contracts, and grants 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 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. 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 and stockholders 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 10, 1999

Johnston & Hayden

SUPPLEMENTARY INFORMATION

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE I - SCHEDULES OF OPERATING EXPENSES

Years Ended December 31,

	1998	1997
Administrative services	$ 37,325	$ 131,595
Auto expense	12,017	3,268
Casual labor	4,875	4,040
Depreciation	2,870	2,150
Insurance	1,055	6,149
Legal and accounting	2,436	-
Licenses and taxes	2,059	6,428
Miscellaneous	10,300	53
Office expense	1,725	5,553
Payroll taxes	12,483	8,954
Postage	-	-
Professional and operating services	36,228	39,525
Rent	6,000	9,000
Repairs and maintenance	8,562	1,342
Salaries and wages	118,327	148,117
Supplies	2,330	1,570
Telephone	2,430	5,118
Travel	1,101	423
Utilities	891	3,636
Total Operating Expenses	$ 263,014	$ 376,921

UNAUDITED - See auditors' disclaimer on supplementary information.

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE II - SCHEDULES OF OTHER INCOME/EXPENSE

Years Ended December 31,

	1998	1997
OTHER INCOME:		
Rent income	$ 36,000	$ 36,000
OTHER EXPENSE:		
Interest expense	6,074	9,114
Penalties	126	-
Total Other Expense	6,200	9,114
Total Other Income (Expense)	$ 29,800	$ 26,886

UNAUDITED - See auditors' disclaimer on supplementary information.