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Professional Rehabilitation Services, Inc.

Baton Rouge, Louisiana

Financial Statements
and Supplementary Information

Years Ended December 31, 2003 and 2002

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Johnston & Hayden, LLC
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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, 2003 and 2002, 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted 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 our report dated June 28, 2004, on our consideration of Professional Rehabilitation Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the auditors' report on the financial statements.

Johnston & Hayden

June 28, 2004

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

BALANCE SHEETS

December 31,

	2003	2002
ASSETS		
CURRENT:		
Cash and cash equivalents	$ 3,650	$ 4,759
Accounts receivable	4,346	-
Total Current Assets	7,996	4,759
PROPERTY AND EQUIPMENT:		
Equipment	24,717	24,717
Furniture and fixtures	2,167	2,167
	26,884	26,884
Less accumulated depreciation	23,583	22,599
Net Property and Equipment	3,301	4,285
OTHER:		
Due from affiliates	84,516	84,516
Deferred income taxes	54,530	54,328
Total Other Assets	139,046	138,844
TOTAL ASSETS	$ 150,343	$ 147,888

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

	2003	2002
LIABILITIES		
CURRENT:		
Accounts payable	$ 42,085	$ 29,174
Payroll taxes payable	1,334	53
Current portion of long-term debt	5,185	4,252
Total Current Liabilities	48,604	33,479
LONG-TERM:		
Notes payable, less current portion	24,809	35,810
OTHER:		
Due to affiliates	261,094	261,094
TOTAL LIABILITIES	334,507	330,383
STOCKHOLDERS' EQUITY		
Retained earnings (deficit)	(184,164)	(182,495)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 150,343	$ 147,888

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years Ended December 31,

	2003	2002
REVENUES	$ 207,746	$ 223,228
OPERATING EXPENSES	237,774	255,993
Net profit (loss) from operations	(30,028)	(32,765)
OTHER INCOME (EXPENSE)	28,157	10,582
Net income (loss) before taxes	(1,871)	(22,183)
INCOME TAX EXPENSE (BENEFIT)	(202)	(3,830)
Net Income (Loss)	(1,669)	(18,353)
RETAINED EARNINGS (DEFICIT), beginning of year	(182,495)	(164,142)
RETAINED EARNINGS (DEFICIT), end of year	$(184,164)	$(182,495)

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

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(1,669)	$(18,353)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	984	1,442
Deferred income taxes	(202)	(3,830)
(Increase) decrease in:		
Accounts receivable	(4,346)	-
Other assets	-	500
Increase (decrease) in:		
Accounts payable	12,911	29,174
Other current liabilities	1,281	53
Net cash provided by operating activities	8,959	8,986
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	-	(4,614)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of outstanding debt	(10,068)	(3,961)
(Increase) decrease in due from affiliates	-	(1,328)
Net cash used by financing activities	(10,068)	(5,289)
NET DECREASE IN CASH	(1,109)	(917)
CASH AND CASH EQUIVALENTS, beginning of year	4,759	5,676
CASH AND CASH EQUIVALENTS, end of year	$ 3,650	$ 4,759

The accompanying notes are an integral part of these 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 programs in the Baton Rouge, Louisiana, areas.

Method of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts may differ, the management believes the estimates are reasonable.

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

Cash and cash equivalents

For the purposes 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.

Accounts receivable

The Company's rehabilitation programs are funded primarily through contractual agreements with the State of Louisiana through the 18th Judicial District Court and 18th Judicial District Drug Court.

With the State of Louisiana as the Company's major source of revenue, all receivables are expected to be fully collectible. Therefore, no provision for uncollectible accounts has been recognized in the accompanying financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

All property and equipment is stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to earnings when 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:

Equipment and machinery	5 years
Furniture and fixtures	7 years

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 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 costs of advertising the first time the advertising takes place, except direct response advertising, which is capitalized and amortized over its expected period of future benefits. At December 31, 2003 and 2002, the Company had no direct-response advertising classified as assets, and all advertising was expensed as incurred.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2003 and 2002, were as follows:

	2003	2002
Cash on hand	$ -	$ -
Cash in bank – checking	3,650	4,759
	$ 3,650	$ 4,759

NOTE C – RELATED PARTY TRANSACTIONS

Amounts due from affiliates at December 31, 2003 and 2002, represents funds advanced from the Company to various entities under common management for various reimbursable operating expenses. These amounts do not bear interest and have no set payment schedule. Management does not anticipate that these liabilities will be liquidated within the current period. Amounts due from affiliates at December 31, 2003 and 2002, were as follows:

	2003	2002
Foundation House	$ 5,167	$ 5,167
Human Services Foundation, Inc.	36,532	36,532
Job Company Baton Rouge	1,329	1,329
Lake Sherwood School	28,436	28,436
Land of Oz Learning Center	9,563	9,563
Livingston Parish Substance Abuse Center	3,489	3,489
	$ 84,516	$ 84,516

Amounts due to affiliates totaling $ 261,094 at December 31, 2003 and 2002, represent funds advanced to the Company from Baton Rouge Development Center, Inc., with which it shares common ownership and management, for various reimbursable operating expenses. These amounts do not bear interest and have no set payment schedule. Management does not anticipate that this liability will be liquidated within the current period.

NOTE C – 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 that share common ownership and management with the Company. No rental or depreciation expense is recorded by the Company as a result of this arrangement.

The Company leases its facilities for the 18th Judicial District Court program under an informal operating lease with its stockholder. This lease is renewable annually based on operating costs. Rent expense under this lease for the year ended December 31, 2003, was $ 28,000. The Company recognized no rent expense under this lease for the year ended December 31, 2002.

NOTE D – NOTES PAYABLE

Notes payable at December 31, 2003 and 2002, consists of the following:

	2003	2002
8.9% note payable to a local bank; payable in monthly installments of $ 637, including principal and interest; due to mature in November 2008	$ 29,994	$ 40,062
Less current portion	5,185	4,252
Long-term portion	$ 24,809	$ 35,810

Future maturities of long-term debt as of December 31, 2003, is as follows:

Year ended December 31,	
2004	$ 5,185
2005	5,666
2006	6,191
2007	6,765
2008 and later	6,187
	$ 29,994

NOTE E - INCOME TAXES

Summaries of the provisions for income taxes for the years ended December 31, 2003 and 2002, are as follows:

	2003	2002
Current	$ -	$ -
Deferred	(202)	(3,830)
	$(202)	$(3,830)

As of December 31, 2003 and 2002, the Company had $ 216,280 and $ 235,089 in loss carryforwards to offset future taxable income, which are due to expire beginning in 2008. Additionally, the Company had tax credit carryforwards totaling $ 5,235 at December 31, 2003 and 2002, arising from alternative minimum tax liabilities in prior years, which is available indefinitely for offset against future Federal tax liabilities.

The expected tax provision that would result from applying statutory rates to income before income taxes differs from current expense due to the nondeductibility of certain expenses, including penalties, and due to the tax rates used to calculate deferred taxes, which do not reflect graduated rates.

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

	2003	2002
Deferred tax assets:		
Current	$ 3,680	$ 3,680
Noncurrent	51,161	50,942
Total deferred tax assets	54,841	54,622
Deferred tax liabilities:		
Current	-	-
Noncurrent	311	294
Total deferred tax liabilities	311	294
Net deferred income tax assets	$ 54,530	$ 54,328

NOTE F – SUPPLEMENTARY CASH FLOW INFORMATION

Cash payments for the years ended December 31, 2003 and 2002, for income taxes and interest are as follows:

	2003	2002
Income taxes	$ -	$ -
Interest	$ 1,482	$ 3,418

The Company had no noncash investing and financing activities for the years ended December 31, 2003 and 2002.

NOTE G – LEASE COMMITMENTS

As detailed in Note C, the Company leases its facilities for the 18th Judicial District Court program under an informal operating lease with its stockholder. This lease is renewable annually based on operating costs. Rent expense under this lease for the year ended December 31, 2003, was $ 28,000. The Company recognized no rent expense under this lease for the year ended December 31, 2002.

NOTE H – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Most of the Company's business is with clients located in the Baton Rouge and New Orleans, Louisiana, areas. The Company's receivables at December 31, 2003, are expected to be paid through contracts with agencies of the State of Louisiana. A reduction in the amount of revenues provided by the State of Louisiana, should this occur, could have a significant impact on the Company's operations.

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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 years ended December 31, 2003 and 2002, and have issued our report thereon dated June 28, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Professional Rehabilitation Services, 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 audits, 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 audits, we considered Professional Rehabilitation Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and shareholders of Professional Rehabilitation Services, Inc., and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Johnston & Hayden

June 28, 2004

SUPPLEMENTARY INFORMATION

PROFESSIONAL REHABILITATION SERVICES, INC.
Baton Rouge, Louisiana

SCHEDULE I - SCHEDULES OF OPERATING EXPENSES

Years ended December 31,

	2003	2002
Administrative services	$ 6,491	$ 7,503
Bank charges	170	251
Depreciation	984	1,442
Insurance	351	-
Legal and accounting	795	-
Licenses and taxes	495	-
Office expense	-	15,064
Payroll taxes	4,977	7,519
Professional expenses	92,885	85,206
Rent	28,000	-
Repairs and maintenance	100	-
Salaries	74,541	91,830
Supplies	20,517	39,946
Travel	7,115	7,232
Utilities	353	-
Total Operating Expenses	$ 237,774	$ 255,993

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,

	2003	2002
OTHER INCOME:		
Miscellaneous income	$ 6,408	$ -
Rent income	24,000	14,000
Total Other Income	30,408	14,000
OTHER EXPENSE:		
Interest expense	1,482	3,418
Penalties	769	-
Total Other Expense	2,251	3,418
Total Other Income (Expense)	$ 28,157	$ 10,582

UNAUDITED – See auditors' disclaimer on supplementary information.

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June 28, 2004

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

In planning and performing our audit of the financial statements of Professional Rehabilitation Services, Inc., for the year ended December 31, 2003, we considered the Company's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening the internal controls, improving operating efficiency, and reducing expenses. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated June 28, 2004, on the financial statements of Professional Rehabilitation Services, Inc.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments and recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Sincerely,

Johnston & Hayden

Johnston & Hayden, LLC

Recordkeeping

Examination of the Company's accounting records revealed the automated general ledger is not being maintained on a current basis. This condition was noted in a previous audit, and recommendations were made at that time that the Company (a) obtain an automated general ledger system that would handle the various accounting and reporting needs; (b) adequately train all accounting personnel in required accounting and reporting functions, including payroll, general ledger, and cost reporting; and (c) monitor the accounting function to verify that accurate and timely information be made available for use by management and Federal or state agencies. Subsequent to our prior recommendations, additional accounting personnel were hired to perform payroll and general ledger functions, enabling current personnel to devote needed time to other functions, such as financial and cost reporting. Additionally, new automated general ledger systems were installed. However, during our recent audit, we noted that accounting staff is currently limited to one individual. Based on the amount of work performed by the accounting staff, we recommend that additional personnel be hired to assist in various accounting functions, such as payroll and general ledger processing. Management should strive to provide more consistent supervision and oversight of both the accounting and program functions to verify compliance with all program, accounting, and regulatory requirements as applicable.

PROFESSIONAL REHABILITATION SERVICES 7324 ALBERTA STREET BATON ROUGE, LA. 70808

September 28, 2004

Sharon B. Robinson, CPA First Assistant Legislative Auditor Office of Legislative Auditor State of Louisiana 1600 North Third Street Baton Rouge, Louisiana 70804

RE: Professional Rehabilitation Services, Inc.
Year Ended December 31, 2003

The purpose of this memorandum is to address the audit report of Professional Rehabilitation Services, Inc. (PRS) for the year ended December 31, 2003, as follows:

* Management Plan to correct the matters referred to in the management letter:

An additional accounting specialist has been employed to improve our accounting and administrative functions and will be responsible for the timely audit reports in the future.

We plan to work more closely with our auditing firm to improve our accounting and reporting needs with periodic reviews of our financial information to ensure accurate and timely information is made available for use by both management and Federal and State agencies.

* Information regarding the deficit in the retained earnings:

The deficit in retained earnings is a result of losses several years prior. During the year 2003 the 18th JDC Drug Court Program was administered by PRS. This program was transferred to another entity effective July 1, 2004. PRS anticipates two new programs beginning in October 2004, which will generate new activity for PRS. We expect the programs to be on a cost reimbursement basis with the possibility of profit that will help reduce the deficit in retained earnings.

Respectfully,

Joy B. Welch

Joy B. Welch

Professional Rehabilitation Services