5819

KPMG Peat Marwick LLP

OFFICIAL
FILE COPY
DO NOT SEND OUT
(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

LOUISIANA FUND CORPORATION
(A wholly-owned subsidiary of
Louisiana Economic Development Corporation)

Financial Statements and Schedule

December 31, 1996 and 1995

With Independent Auditors' Report Thereon

Under provisions of state law, this
report is a public document. A
copy of the report has been submit-
ted to the entity and other
elected officials and other public
officials. The report is available for
public inspection at the Baton
Rouge office of the Legislative Audi-
tor and, where appropriate, at the
office of the parish clerk of court

Release Date SEP 10 1997

KPMG Peat Marwick LLP

Premier Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Independent Auditors' Report

The Board of Directors
Louisiana Fund Corporation:

We have audited the accompanying balance sheets of Louisiana Fund Corporation (a wholly-owned subsidiary of Louisiana Economic Development Corporation) (the Fund) as of December 31, 1996 and 1995, and the related statements of operations, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 with *Government Auditing Standards* (1994 Revision), 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 Louisiana Fund Corporation as of December 31, 1996 and 1995, 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 Schedule 1 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 audits 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 1997 on our consideration of Louisiana Fund Corporation's internal control structure and a report dated May 30, 1997 on its compliance with laws and regulations.

KPMG Peat Marwick LLP

May 30, 1997

LOUISIANA FUND CORPORATION

Balance Sheets

December 31, 1996 and 1995

Assets	1996	1995
Cash and cash equivalents	$ 492,078	1,191,927
Investments - at fair value (cost - $2,020,405 and $2,051,650 in 1996 and 1995, respectively)	2,525,509	1,983,942
Accrued interest receivable	80,368	64,948
Total assets	$ 3,097,955	3,240,817
Liabilities and Stockholder's Equity		
Liabilities - dividend payable	92,851	808,525
Stockholder's equity:		
Common stock, no par value, $2,500 stated value. Authorized, issued and outstanding, 1,000 shares	2,500,000	2,500,000
Retained earnings	-	-
Net unrealized appreciation (depreciation) in investments	505,104	(67,708)
Total stockholder's equity	3,005,104	2,432,292
Total liabilities and stockholder's equity	$ 3,097,955	3,240,817

See accompanying notes to financial statements.

LOUISIANA FUND CORPORATION

Statements of Operations

For the years ended December 31, 1996 and 1995

	1996	1995
Investment income:		
Interest earned:		
Interest-bearing deposits	$ 28,678	16,033
Investments	58,260	65,809
Dividends on capital stock	9,966	9,966
Other	33,815	14,693
Total investment income	130,719	106,501
Expenses:		
Management fees	62,500	62,500
Professional fees	6,321	6,005
Total expenses	68,821	68,505
Net investment income	61,898	37,996
Net realized gain on disposition of investment	30,953	770,529
Net unrealized appreciation in fair value of investments	572,812	52,292
Net operating results	$ 665,663	860,817

See accompanying notes to financial statements.

LOUISIANA FUND CORPORATION

Statements of Changes in Stockholder's Equity

For the years ended December 31, 1996 and 1995

	Common stock	Retained earnings	Unrealized appreciation (depreciation)	Total
Balances at January 1, 1995	$ 2,500,000	-	(120,000)	2,380,000
Net realized gain on disposition of investment for the year ended December 31, 1995	-	770,529	-	770,529
Net unrealized appreciation in fair value of investments for the year ended December 31, 1995	-	-	52,292	52,292
Net investment income for the year ended December 31, 1995	-	37,996	-	37,996
Dividend declared in 1995	-	(808,525)	-	(805,525)
Balances at December 31, 1995	2,500,000	-	(67,708)	2,432,292
Net realized gain on disposition of investment for the year ended December 31, 1996	-	30,953	-	30,953
Net unrealized appreciation in fair value of investments for the year ended December 31, 1996	-	-	572,812	572,812
Net investment income for the year ended December 31, 1996	-	61,898	-	61,898
Dividend declared in 1996	-	(92,851)	-	(92,851)
Balances at December 31, 1996	$ 2,500,000	-	505,104	3,005,104

See accompanying notes to financial statements.

LOUISIANA FUND CORPORATION

Statements of Cash Flows

For the years ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Net operating results	$ 665,663	860,817
Adjustments to reconcile net operating results to net cash provided by operating activities:		
Increase in accrued interest receivable	(15,420)	(19,133)
Increase in unrealized appreciation	(572,812)	(52,292)
Realized gain on disposition of investments	(30,953)	(770,529)
Net cash provided by operating activities	46,478	18,863
Cash flows from investing activities:		
Purchase of capital stock	-	(35,000)
Purchase of debt instruments	-	(25,000)
Proceeds from paydown of debt instruments	-	100,000
Proceeds from sale of capital stock	62,198	931,347
Net cash provided by (used in) investing activities	62,198	971,347
Cash flows from financing activities - dividends paid	(808,525)	(46,825)
Net (decrease) increase in cash and cash equivalents	(699,849)	943,385
Cash and cash equivalents at beginning of year	1,191,927	248,542
Cash and cash equivalents at end of year	$ 492,078	1,191,927

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Louisiana Fund Corporation (the Fund) conform with generally accepted accounting principles and general practices within the venture capital industry. The accounting policies which significantly affect the determination of financial position, cash flows or results of operations are presented below.

(a) Description of Organization

The Fund was formed under the laws of the State of Louisiana on August 14, 1989 as a wholly-owned subsidiary of the Louisiana Economic Development Corporation (LEDC), a public authority created pursuant to Title 51 of the Louisiana Revised Statutes of 1950. Pursuant to the Louisiana Economic Development Act, the Fund was formed to provide venture capital financing through loans or stock purchases in small business enterprises maintaining headquarters and production facilities in Louisiana.

The Fund is managed by Bank One Equity Investors, Inc. (BOEI or the Fund's Manager), formerly Premier Venture Capital Corporation II, a federally-chartered small business investment company regulated by the Small Business Administration. BOEI is a wholly-owned subsidiary of Bank One, Louisiana, NA (BOLA) which is a wholly-owned subsidiary of Banc One Louisiana Corporation, a single-bank holding company. BOEI provides the Fund with administrative services and is responsible for identifying, investigating, evaluating and making investments in small business enterprises.

(b) Cash and Cash Equivalents

The Fund considers cash in banks and certificates of deposit with maturities of ninety days or less to be cash equivalents.

(c) Investments

In preparing the financial statements, management is required to make significant judgments that affect the reported amounts of investments as of the date of the balance sheet and the change in unrealized appreciation (depreciation) for the period.

The process of valuing investments requires significant judgments that are particularly susceptible to change. Management believes that investment values are appropriate. While management uses available information to determine its estimate of fair values of investments, future adjustments may be necessary based on changes in economic conditions.

(Continued)

The Fund records its investments at estimated fair value as determined by the Fund's Manager. In preparing the financial statements, the Fund's Manager is required to make significant judgments that affect the recorded amounts of investments as of the date of the balance sheet and change in unrealized appreciation (depreciation) for the period. The process of valuing investments requires significant judgments that are particularly susceptible to change. The Fund's Manager believes that investment values are appropriate. While management uses available information to determine its estimate of fair values of investments, future adjustments may be necessary based on changes in economic conditions.

Fair value generally is considered to be the amount which the Fund might reasonably expect to receive for its investments if negotiations for sale were entered into on the valuation date. Valuation as of any particular date, however, is not necessarily indicative of the amount which the Fund ultimately may realize as a result of a future sale or other disposition of the investments.

The valuation policies of the Fund's Manager in determining the fair value of the Fund's investments include the following:

- Listed securities which are not restricted as to salability or transferability are valued at the closing price as of the valuation date. If any listed security does not trade on such date, then the mean of the closing high bid and low asked prices is used.

- Unlisted securities which are readily marketable are valued at the mean of the closing bid and asked prices as of the valuation date.

- Securities, whether listed or unlisted, for which market quotations are available, but which are restricted as to salability or transferability, are valued as provided in the above subsections, less a discount from the value thereof as determined in good faith by the Fund's Manager. In determining the amount of such discount, the Fund's Manager considers the nature and term of such restriction and relative volatility of the market price for such security.

- Securities for which market quotations are not readily available, and all other investments, are valued at fair value, as determined by the Fund's Manager. In making its valuations, the Fund's Manager considers the cost of the investments and developments since the acquisition of the investments.

(Continued)

Generally, these securities are carried at cost, unless significant events have occurred to change this value. Portfolio companies that raise significant additional financing from a group, including new institutional investors, are typically valued using the per share price of this new financing. Portfolio companies which experience significant operating problems may be reduced in value if the Fund's Manager determines that these problems have caused a fundamental reduction in company value.

(d) Income Recognition

Investment interest income earned by the Fund is recognized on the accrual basis of accounting. Dividend income is recognized when received.

Interest income on loans is generally accrued on the principal balance outstanding. The accrual of interest income on loans is discontinued when the receipt of principal and interest on a timely basis becomes doubtful. Any accrued interest is reversed when a loan is placed on nonaccrual.

The cost of each specific security is used to determine gains or losses on sales of securities. Such gains or losses are reported as a component of realized gains (losses). Purchases and sales of investments are recorded on a trade date basis.

(e) Income Taxes

Income accruing to the Fund, which is wholly-owned by a state agency, is exempt from federal income taxes pursuant to Internal Revenue Code Section 115(1) since such income is derived from the existence of an essential governmental function.

(2) Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost, which approximated market at December 31, 1996 and 1995. Cash and cash equivalents of the Fund at December 31, 1996 and 1995 were as follows:

	1996	1995
Money market - Bank One, Louisiana, NA	$ 37,078	51,927
Certificates of deposit - Bank One, Louisiana, NA	455,000	1,145,000
	$ 492,078	1,196,927

(Continued)

LOUISIANA FUND CORPORATION

Notes to Financial Statements

As required by terms of a management agreement with BOEI and in compliance with state regulations, Bank One, Louisiana, NA pledges securities, the market value of which must be equal to at least 110% of the amount on deposit in excess of Federal Deposit Insurance Corporation insurance at all times. As of December 31, 1996 and 1995, the Fund was fully secured by U.S. Treasury Notes with a market value in excess of $1,000,000 and $1,700,000, respectively.

(3) Investments

The cost and estimated fair value of the Fund's investments at December 31 were as follows:

	1996		1995	
	Cost	Fair Value	Cost	Fair Value
Debt investments	$ 577,649	552,649	577,649	577,649
Equity investments	1,442,756	1,972,860	1,474,001	1,406,293
	$ 2,020,405	2,525,509	2,051,650	1,983,942

Proceeds from sales of investments during 1996 were $62,198. Gross gains of $30,954 and no gross losses were realized on those sales. In addition, gross unrealized appreciation and gross unrealized depreciation in the fair value of investments was $572,812 and $67,708 during 1996 and 1995, respectively. During 1995, there were $770,529 realized gains on investments.

Investments valued at $2,519,881 and $1,978,942 as of December 31, 1996 and 1995, respectively, represent securities for which market quotations are not readily available and, consistent with the Fund's policy, are reflected at fair value estimated by the Fund's Manager. Such securities are restricted as to salability or transferability.

The Fund's investing activities are conducted entirely with businesses located in Louisiana. The Fund's objective is to maintain an investment portfolio that is diverse in terms of the type of investment, industry concentration and the type of borrower to reduce the adverse impact of a

(Continued)

single event or set of circumstances. As of December 31, 1996, total credit risk to investee companies (including debt and equity investments) that exceeded ten percent of stockholder's equity were as follows:

	Total credit risk	Percent of stockholder's equity
Industrial Equipment Rentals, Inc.	$ 1,458,881	48.55%
Cardiovascular Ventures, Inc.	750,000	24.96%
Central Pharmacy Services, Inc.	311,000	10.35%

On January 1, 1995, the Fund adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (FAS 114) and Statement of Financial Accounting Standards No. 118, "Accounting by Credits for Impairment of a Loan - Income Recognition and Disclosures" (FAS 118). Pursuant to FAS 114 and 118, a loan is considered to be impaired when it is probable that a creditor will be unable to collect all principal and interest amounts due, according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of its impairment can be determined in one of three ways, as follows: (1) the present value of the expected cash flows of the loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan, or (3) the fair value of the collateral of a collateral-dependent loan. The amount by which the recorded investment in the loan exceeds the measure of the impaired loan is recognized by recording a valuation allowance with a corresponding charge to the provision for loan losses. The effect of adopting FAS 114 and FAS 118 on the Fund's financial condition and results of operations was immaterial. At December 31, 1996, no loans were considered to be impaired under FAS 114.

(4) Dividends

Net investment income and realized gains on dispositions are distributed annually as a dividend to the sole stockholder, LEDC. During 1996 and 1995, dividends of $92,851 and $808,525, respectively, were declared.

(5) Related Party Transactions

The Fund maintained a money market account with Bank One, Louisiana, NA and earned interest income on this account of $4,643 and $3,608 during 1996 and 1995, respectively. In addition, the Fund purchased certificates of deposit from Bank One, Louisiana, NA and earned interest income on these certificates of $24,034 and $12,425 during 1996 and 1995, respectively. Accrued interest on these certificates of deposit was

(Continued)

LOUISIANA FUND CORPORATION

Notes to Financial Statements

$4,858 and $354 at December 31, 1996 and 1995, respectively. Interest is accrued daily on the money market accounts and certificates of deposits mentioned above based on the applicable stated interest rate.

The Fund has an agreement with BOEI to manage the operations of the Fund for a period of ten years through August 13, 1999, or earlier if certain conditions are met as specified in the agreement. Under the agreement, BOEI will receive an annual fee of 2.5% of the initial $2,500,000 capital contribution less any funds returned to the LEDC from the sale or liquidation of these investments, excluding any gain or loss realized, adjusted quarterly. In addition to the annual fee, BOEI is entitled to receive 20% of net investment income and net realized gains from dispositions of investments by the Fund after the initial $2,500,000 capital contribution is returned to the LEDC in the form of dividends. The Fund paid management fees of $62,500 to BOEI in both 1996 and 1995.

Schedule 1

LOUISIANA FUND CORPORATION

Schedule of Investments

December 31, 1996 and 1995

	1996		1995	
	Cost	Valuation by the Fund's Manager	Cost	Valuation by the Fund's Manager
Debt investments:				
Autocount, Inc. - Demand Note	$ 25,000	-	25,000	25,000
Central Pharmacy Services, Inc. - 8% subordinated debenture, due December 31, 1998	219,316	219,316	219,316	219,316
Industrial Equipment Rentals, Inc. - 12% subordinated debenture, due July 1, 2003	333,333	333,333	333,333	333,333
Total debt investments	577,649	552,649	577,649	577,649
Equity investments:				
Autocount, Inc.:				
20,000 shares of Series A convertible preferred stock (8% cumulative)	200,000	-	200,000	80,000
12,000 shares of Series C convertible preferred stock	48,000	-	48,000	48,000
25,000 and 25,000 shares of Series D convertible preferred stock in 1996 and 1995, respectively	100,000	-	100,000	100,000
Cardiovascular Ventures, Inc. - 171,428.5 shares of Series C Preferred Stock	750,000	750,000	750,000	750,000
Central Pharmacy Services, Inc. - 7,035 shares of 8% cumulative preferred stock	120,158	91,684	120,158	120,158

(Continued)

LOUISIANA FUND CORPORATION

Schedule of Investments, Continued

	1996		1995	
	Cost	Valuation by the Fund's Manager	Cost	Valuation by the Fund's Manager
Equity investments, cont.:				
Industrial Equipment Rentals, Inc.:				
56,359 shares of common stock	$ 563	959,448	563	563
1,661 shares of 6% junior preferred stock	166,100	166,100	166,100	166,100
Physician Sales & Service, Inc. - 349 and 6,756 shares of common stock, respectively	57,935	5,628	89,180	141,472
Total equity investments	1,442,756	1,972,860	1,474,001	1,406,293
Total investments	$ 2,020,405	2,525,509	2,051,650	1,983,947

Note: All of the Fund's investments represent securities which are restricted as to salability or transferability.

KPMG Peat Marwick LLP

Premier Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Compliance Report Based on Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Louisiana Fund Corporation:

We have audited the financial statements of Louisiana Fund Corporation as of and for the year ended December 31, 1996, and have issued our report thereon dated May 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1994 Revision), 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 and contracts applicable to Louisiana Fund Corporation is the responsibility of Louisiana Fund Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Fund Corporation's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the 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 indicate that, with respect to the items tested, Louisiana Fund Corporation complied, in all material respects, with the provision referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Louisiana Fund Corporation had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Commissioner of Insurance, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

May 30, 1997

KPMG Peat Marwick LLP

Premier Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Report on Internal Control Structure in Accordance With *Government Auditing Standards*

The Board of Directors
Louisiana Fund Corporation:

We have audited the financial statements of Louisiana Fund Corporation as of and for the year ended December 31, 1996, and have issued our report thereon dated May 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1994 Revision), 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.

In planning and performing our audits of the financial statements of Louisiana Fund Corporation for the year ended December 31, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure.

The management of Louisiana Fund Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure 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 financial statements in accordance with generally accepted accounting principles. Because of 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 to 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.