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LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Financial Statements and Schedule

June 30, 1998 and 1997

With Independent Auditors' Report Thereon

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 SEP 16 1998

KPMG Peat Marwick LLP

Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Independent Auditors' Report

The Board of Directors
Louisiana Economic Development Corporation
Louisiana Venture Fund:

We have audited the accompanying balance sheets of Louisiana Economic Development Corporation Louisiana Venture Fund (the Fund) as of June 30, 1998 and 1997, and the related statements of operations, changes in fund 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 the standards applicable to financial audits contained in *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 Louisiana Economic Development Corporation Louisiana Venture Fund as of June 30, 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 the Schedule 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 our report dated July 29, 1998, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG Peat Marwick LLP

July 29, 1998

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Balance Sheets

June 30, 1998 and 1997

Assets	1998	1997
Cash and cash equivalents (note 2)	$ 61,473	130,827
Investments - at fair value (cost - $1,010,188 and $1,557,426 in 1998 and 1997, respectively) (note 3)	1,753,562	2,004,994
Receivables	-	56,016
	$ 1,815,035	2,191,837
Liabilities and Fund Equity		
Dividend payable (note 4)	6,422	106,790
Accrued expenses	6,500	6,500
	12,922	113,290
Fund equity	1,845,193	1,880,972
Cumulative realized losses	(786,468)	(250,000)
Net unrealized appreciation in investments	743,388	447,575
	1,802,113	2,078,547
	$ 1,815,035	2,191,837

See accompanying notes to financial statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Statements of Operations

For the years ended June 30, 1998 and 1997

	1998	1997
Investment income -		
Interest earned:		
Interest-bearing deposits	$ 7,797	6,249
Investments	-	47,590
Total investment income	7,797	53,839
Expenses:		
Management fees (note 5)	50,240	50,240
Professional fees	13,863	17,004
Bank charges	2,102	1,871
Total expenses	66,205	69,115
Net investment loss	(58,408)	(15,276)
Realized and unrealized gains (losses) on investments (note 3):		
Net realized gain (loss) on investments	(507,417)	58,420
Change in unrealized appreciation of investments	295,813	734,291
Net realized and unrealized gains (losses) on investments	(211,604)	792,711
Net operating income (loss)	$(270,012)	777,435

See accompanying notes to financial statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Statements of Changes in Fund Equity

For the year ended June 30, 1998 and 1997

	Fund equity	Net investment income	Cumulative realized losses	Net unrealized (depreciation) appreciation	Total
Balances at June 30, 1996	$ 1,944,618	-	(250,000)	(286,716)	1,407,902
Net investment loss for the year ended June 30, 1997	-	(15,276)	-	-	(15,276)
Net realized gain on investments for the year ended June 30, 1997	-	-	58,420	-	58,420
Net unrealized appreciation in fair value of investments for the year ended June 30, 1997	-	-	-	734,291	734,291
Dividend declared in 1997	(63,646)	15,276	(58,420)	-	(106,790)
Balances at June 30, 1997	1,880,972	-	(250,000)	447,575	2,078,547
Net investment loss for the year ended June 30, 1998	-	(58,408)	-	-	(58,408)
Net realized loss on investments for the year ended June 30, 1998	-	-	(507,417)	-	(507,417)
Net unrealized appreciation in fair value of investments for the year ended June 30, 1998	-	-	-	295,813	295,813
Dividend declared in 1998	(35,779)	58,408	(29,051)	-	(6,422)
Balances at June 30, 1998	$ 1,845,193	-	(786,468)	743,388	1,802,113

See accompanying notes to financial statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Statements of Cash Flows

For the years ended June 30, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net operating income (loss)	$(270,012)	777,435
Adjustments to reconcile net operating results to net cash used in operating activities:		
Increase (decrease) in receivables	56,016	(56,016)
Net realized (gain) loss on investments	507,417	(58,420)
Change in unrealized appreciation of investments	(295,813)	(734,291)
Increase in accrued expenses	-	6,500
Net cash used in operating activities	(2,392)	(64,792)
Cash flows from investing activities:		
Purchase of capital stock	-	(26,667)
Funding of loan receivable	(25,000)	(17,922)
Proceeds from sale of investments	29,051	58,420
Principal payments received on loans receivable	35,777	63,840
Net cash provided by investing activities	39,828	77,671
Cash flows from financing activities - payment of dividend	(106,790)	(65,510)
Net decrease in cash and cash equivalents	(69,354)	(52,631)
Cash and cash equivalents at beginning of year	130,827	183,458
Cash and cash equivalents at end of year	$ 61,473	130,827

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Louisiana Economic Development Corporation Louisiana Venture Fund (the Fund) in the preparation of its financial statements:

(a) Description of the Fund

The Fund was formed under the laws of the State of Louisiana on July 5, 1990 as a wholly-owned fund of the Louisiana Economic Development Corporation (LEDC), a public corporation. Pursuant to the Louisiana Economic Development Act, the Fund was formed to provide venture capital financing through loans to or equity investments in small business enterprises maintaining headquarters and production facilities in Louisiana.

The Fund is managed by Source Capital Corporation, formerly Louisiana Seed Capital Corporation (the Fund's Manager or Source). Source provides the Fund with administrative services and is responsible for identifying, investigating, evaluating and making investments in small business enterprises. The Fund was managed by Source, under a management agreement with the LEDC, through June 30, 1998. The LEDC is considering exercising its option to extend the management agreement for up to two additional years. At the expiration of the management agreement, LEDC will assume management responsibilities of the Fund.

(b) Cash and Cash Equivalents

The Fund considers cash in banks, money market investments, certificates of deposit with maturities of ninety days or less and investments in U.S. Treasury bills with maturities of thirty days or less to be cash equivalents.

(c) Investments

The Fund records its investments at estimated fair value as determined by the Fund's Manager. 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.

In preparing the financial statements, the Fund's Manager 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.

(Continued)

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 the Fund's Manager uses available information to recognize declines in investment values, future adjustments may be necessary based on changes in economic conditions or changes in the results of the operations of investee companies.

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

- Marketable securities listed on a national securities exchange are valued at their closing sales price on the valuation date;

- Marketable securities traded over-the-counter are valued at their closing bid price on the valuation date, as reported in the National Association of Securities Dealers' Automated Quotation System (NASDAQ) or if not reported in NASDAQ, as reported by the National Quotation Bureau (or any successor to such organization);

- Restricted securities (securities not freely marketable, but part of a class of securities listed on a national securities exchange or traded over-the-counter) are valued at a discount from the security's value determined under the above subsections, reflecting their limited marketability; and

- All other securities are valued initially at cost with subsequent adjustments to values which reflect meaningful third-party transactions in the private market or at fair market value reflecting, in any event, their marketability, the business and prospects of the issuer of such securities and other relevant factors.

The Fund Manager considers a loan 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.

(Continued)

(d) Income Recognition

Investment interest income earned by the Fund is recognized on the accrual basis of accounting. Dividend income is recognized on the ex-dividend date.

Interest income on loans and debt instruments is generally accrued on the principal balance outstanding. The accrual of interest income on loans and debt instruments 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 and state income taxes pursuant to Internal Revenue Code Section 115 (1) since such income is derived from the existence of an essential governmental function.

(f) 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost, which approximated market at June 30, 1998 and 1997.

As required by terms of a management agreement with Source Capital Corporation, the depository bank has pledged securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance, the market value of which is at least equal to the amount on deposit at all times.

(Continued)

(3) Investments

The cost and estimated fair value, including gross unrealized gains and losses, of the Fund's investments at June 30, 1998 and 1997 were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 1998:				
Debt instruments	$ 340,874	-	(168,334)	172,540
Preferred stock	150,000	-	-	150,000
Common stock	519,314	1,000,000	(88,292)	1,431,022
Total investments	$ 1,010,188	1,000,000	(256,626)	1,753,562
June 30, 1997:				
Debt instruments	592,788	-	(392,802)	199,986
Preferred stock	348,664	-	-	348,664
Common stock	615,974	945,000	(104,630)	1,456,344
Total investments	$ 1,557,426	945,000	(497,432)	2,004,994

Investments as of June 30, 1998 and 1997, consist primarily of 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.

In its normal course of business, the Fund becomes a party to various financial transactions that involve various risks, including market and credit risk. The Fund's Manager minimizes its exposure to loss from its investing activities by evaluating the business and prospects of potential investee companies.

At June 30, 1998 and 1997, debt instruments of $42,940 and $69,029, respectively, were identified by management as having a higher degree of risk than other debt instruments in the portfolio. These amounts represent the carrying value of debt instruments issued by GDC Engineering, Inc. Management believes that the collateral securing this note is sufficient to ensure repayment.

During fiscal 1998, the Fund wrote-off its investment in Commercial Technologies, Inc. and AutoCount, Inc. resulting in a realized loss of $536,465.

In its efforts to diversify the risk in its investment portfolio, the Fund Manager follows established policies which require them to avoid concentrations in any one industry or customer group. The Fund's Manager believes that at original cost, the Fund's investments had no significant

(Continued)

industry or customer concentrations in 1998 or 1997. At June 30, 1998, the fair value of one investment was approximately 69% of total fund equity.

(4) Dividends

Net investment income (loss) plus any realized cash gains from investments and any cash received from the disposition of investments are distributed annually as a dividend to the LEDC.

At June 30, 1998 and 1997, the following components were recorded as a dividend payable to the LEDC:

	1998	1997
Net investment loss	$(58,408)	(15,276)
Gain realized from disposition of CEI investments	29,051	58,420
Cash received as principal paydown from Phoenix Environmental	9,690	15,874
Cash received as principal paydown from GDC Engineering, Inc.	26,089	47,772
	$ 6,422	106,790

(5) Related Party Transactions

The LEDC entered into an agreement with Source to manage the operations of the Fund for a period of seven years through June 30, 1997. This contract was extended for the year ended June 30, 1998.

Under the agreement, Source will receive an annual fee of 2.5% of the initial $2,500,000 capital contributed by the LEDC, less any funds invested in small business enterprises that are returned to the LEDC in the form of a dividend or from the sale or liquidation of these investments, excluding any gain or loss realized, adjusted quarterly. In addition to this annual fee, Source 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 as dividends. The Fund paid management fees to Source of $50,240 in the years ended June 30, 1998 and 1997, respectively.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Schedule of Investments

June 30, 1998 and 1997

	1998			1997		
	Cost	Valuation by the Fund's manager	Percentage of fund equity	Cost	Valuation by the Fund's manager	Percentage of fund equity
Debt instruments:						
Presonus Audio Electronics, Inc. - $25,000 convertible debenture, due December 31, 1998, interest of 8%	$ 25,000	25,000	1.4%	$ -	-	-
GDC Engineering, Inc. - $286,667 secured promissory note, dated March 10, 1993, interest payable monthly at the base rate on corporate loans as published by the Wall Street Journal, fifty-four monthly principal installments of $5,309, payable beginning October 1, 1993	42,940	42,940	2.3%	69,029	69,029	3.3%
Petrochemical Services, Inc. - $300,000 secured promissory note, dated August 21, 1996, interest payable quarterly at 10%, annual principal installments of $10,000 beginning on August 21, 1999. A Royalty held on revenue is payable quarterly through August 21, 2001.	272,934	104,600	5.8%	282,625	114,291	5.5%
Commercial Technologies, Inc. - promissory note, dated September 6, 1995, interest payable at 18%, due December 28, 1995	-	-	-	224,468	-	-
Autocount, Inc. - $10,000 promissory note, dated October 1995, interest payable at 12% annually, due on demand	-	-	-	10,000	10,000	0.5%
Autocount, Inc. - $3,333 promissory note, dated November 1995, interest payable at 12% annually, due on demand	-	-	-	3,333	3,333	0.2%
Autocount, Inc. - $3,333 promissory note dated December 1995, interest payable at 12% annually, due on demand	-	-	-	3,333	3,333	0.2%
Total debt instruments	340,874	172,540	9.5%	592,788	199,986	9.7%

(Continued)

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
LOUISIANA VENTURE FUND

Schedule of Investments, Continued

	1998			1997		
	Cost	Valuation by the Fund's manager	Percentage of fund equity	Cost	Valuation by the Fund's manager	Percentage of fund equity
Common Stock:						
Hirel Holding, Inc., 35,972 shares of common stock in 1998 and 1997	$ 269,314	181,022	10.0%	$ 269,307	234,677	11.3%
US Agencies, Inc., 250,000 shares common stock in 1998 and 1997	250,000	1,250,000	69.4%	250,000	1,175,000	56.5%
Commercial Technologies, Inc., 1,567,500 shares of common stock in 1998 and 1997	-	-	-	70,000	-	-
Autocount, 106,667 shares of common stock in 1998 and 1997	-	-	-	26,667	26,667	1.3%
Veeder Root, final earnout payment due September 30, 1997	-	-	-	-	20,000	1.0%
Total common stock	519,314	1,431,022	79.4%	615,974	1,456,344	70.1%
Preferred stock:						
Presonus Audio Electronics, 1,500 shares of Series A preferred stock in 1998 and 1997	150,000	150,000	8.3%	150,000	150,000	7.2%
Autocount, Inc., 8,333 shares of Series B preferred stock in 1998 and 1997	-	-	-	99,996	99,996	4.8%
Autocount, Inc., 17,498 shares of Series D Preferred stock in 1998 and 1997	-	-	-	66,667	66,667	3.2%
Autocount, Inc., 8,000 shares of Series C preferred stock in 1998 and 1997	-	-	-	32,001	32,001	1.5%
Total preferred stock	150,000	150,000	8.3%	348,664	348,664	16.7%
Total investments	$ 1,010,188	1,753,562	97.2%	$ 1,557,426	2,004,994	96.5%

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

KPMG Peat Marwick LLP

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Louisiana Economic Development Corporation
Louisiana Venture Fund:

We have audited the financial statements of Louisiana Economic Development Corporation Louisiana Venture Fund (the Fund) as of and for the year ended June 30, 1998, and have issued our report thereon dated July 29, 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 the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

July 29, 1998