

Consolidated Financial Statements
and Other Financial Information

Enterprise Corporation of the Delta

Years ended December 31, 2000 and 1999
with Report of Independent Auditors

Enterprise Corporation of the Delta

Consolidated Financial Statements
and Other Financial Information

Years ended December 31, 2000 and 1999

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Report of Independent Auditors

The Board of Directors
Enterprise Corporation of the Delta

We have audited the accompanying consolidated statements of financial position of the Enterprise Corporation of the Delta as of December 31, 2000 and 1999, and the related consolidated statements of cash flows for the years then ended and the consolidated statement of activities and changes in net assets for the year ended December 31, 2000. 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. Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Enterprise Corporation of the Delta at December 31, 2000 and 1999, and their consolidated cash flows for the years then ended, and the changes in their consolidated net assets for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

Jackson, Mississippi
February 9, 2001

Enterprise Corporation of the Delta

Consolidated Statements of Financial Position

	December 31	
	2000	1999
Assets		
Cash and cash equivalents	\$ 3,212,760	\$ 1,981,496
Certificate of deposit	100,000	100,000
Grants receivable	5,112,500	2,890,000
Other receivables	37,720	37,213
Loans	12,961,767	7,121,727
Allowance for loan losses	(2,475,000)	(1,360,000)
Loans, net	10,486,767	5,761,727
Interest receivable	313,525	287,969
Prepaid expenses	37,561	-
Debt securities	17,619,107	16,741,267
Investments in privately-held companies:		
Subordinated debt securities	575,000	340,000
Preferred stock	902,500	600,000
Equipment, net	133,361	126,508
Other assets	8,550	-
Total assets	\$38,539,351	\$28,866,180
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 176,734	\$ 66,361
Dividends payable	-	93,958
Other liabilities	9,329	-
Long-term debt	8,060,000	5,035,000
Total liabilities	8,246,063	5,195,319
Net assets		
Unrestricted	4,526,711	5,252,421
Minority interest in ECDI	9,209,430	5,547,035
Unrestricted	13,736,141	10,799,456
Temporarily restricted	3,197,147	1,011,405
Permanently restricted	13,360,000	11,860,000
Total net assets	30,293,288	23,670,861
Total liabilities and net assets	\$38,539,351	\$28,866,180

See accompanying notes.

Enterprise Corporation of the Delta

Consolidated Statement of Activities and Changes in Net Assets
with summarized financial information for the
year ended December 31, 1999

	Year ended December 31, 2000				December 31 1999
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues and gains (losses)					
Grants and contributions	\$ 27,500	\$ 3,200,000	\$ 1,500,000	\$ 4,727,500	\$ 4,416,889
In-kind contributions	101,513	—	—	101,513	101,919
Interest and dividends:					
Loans and other investments	1,027,878	—	—	1,027,878	682,440
Debt securities and cash equivalents	1,414,144	—	—	1,414,144	744,145
Net unrealized gain (loss) on debt securities	188,478	—	—	188,478	(188,625)
Net realized gain on sales of debt securities	3,989	—	—	3,989	—
Loan fees and other revenue	109,663	—	—	109,663	56,855
	2,873,165	3,200,000	1,500,000	7,573,165	5,813,623
Net assets released from restrictions:					
Satisfaction of program restriction	564,258	(564,258)	—	—	—
Expiration of time restrictions	450,000	(450,000)	—	—	—
Total revenues and gains	3,887,423	2,185,742	1,500,000	7,573,165	5,813,623
Expenses					
Program expenses:					
Development finance	2,595,803	—	—	2,595,803	2,917,023
Technical assistance	340,353	—	—	340,353	346,209
Housing initiative	31,982	—	—	31,982	—
	2,968,138	—	—	2,968,138	3,263,232
General administration (<i>Note 7</i>)	1,642,774	—	—	1,642,774	886,978
Fund-raising and communication	339,826	—	—	339,826	241,142
Total expenses	4,950,738	—	—	4,950,738	4,391,352
Change in net assets before minority interest	(1,063,315)	2,185,742	1,500,000	2,622,427	1,422,271
Minority interest	4,000,000	—	—	4,000,000	2,606,042
Change in net assets	2,936,685	2,185,742	1,500,000	6,622,427	4,028,313
Net assets at beginning of year	10,799,456	1,011,405	11,860,000	23,670,861	19,642,548
Net assets at end of year	\$13,736,141	\$ 3,197,147	\$ 13,360,000	\$30,293,288	\$23,670,861

See accompanying notes.

Enterprise Corporation of the Delta
Consolidated Statements of Cash Flows

	Year ended December 31	
	2000	1999
Operating activities		
Change in net assets	\$6,622,427	\$ 4,028,313
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Minority interest	(4,000,000)	(2,606,042)
Depreciation	41,447	78,558
Provision for loan losses	1,625,159	1,514,790
Unrealized (gain) loss on debt securities	(188,478)	188,625
Deferred income taxes	(8,550)	—
Loss on disposal of equipment	4,289	—
(Increase) decrease in grants and other receivables, prepaid expenses and interest receivable	(2,286,124)	3,200,841
Increase in accounts payable, accrued expenses and other liabilities	119,702	54,821
Net cash provided by operating activities	1,929,872	6,459,906
Investing activities		
Net increase in loans	(6,350,199)	(1,455,689)
Purchases of debt securities	(24,629,564)	(33,243,498)
Proceeds from maturities and sales of debt securities	23,402,702	26,088,931
Purchases of equipment	(52,589)	(49,581)
Net cash used in investing activities	(7,629,650)	(8,659,837)
Financing activities		
Proceeds from private placement	4,000,000	2,700,000
Long-term borrowings	3,025,000	885,000
Dividends paid	(93,958)	—
Net cash provided by financing activities	6,931,042	3,585,000
Net increase in cash and cash equivalents	1,231,264	1,385,069
Cash and cash equivalents at beginning of year	1,981,496	596,427
Cash and cash equivalents at end of year	\$3,212,760	\$ 1,981,496
Supplemental disclosure—		
Interest paid	\$ 154,000	\$ 106,000

See accompanying notes.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements

December 31, 2000

1. Accounting Policies

Description of the Company

The Enterprise Corporation of the Delta (the "Company") is a wholly-owned subsidiary of the Enterprise Corporation of the Mid South. The Company was incorporated in 1994 as a not-for-profit development financial corporation serving the delta region of Arkansas, Louisiana, and Mississippi. The goal of the Company is to improve the regional economy through investment, jobs and growth. The services of the Company include financing, management assistance and market development designed to support business creation and expansion.

ECD Investments, LLC ("ECDI"), a for-profit subsidiary of Enterprise Corporation of the Delta, was formed in 1997 as a limited liability company. ECD Investments BIDCO, Inc. ("BIDCO") is a wholly-owned subsidiary of ECDI. The purpose of ECDI is the same as that of the Company.

The consolidated financial statements of the Company have been prepared on the accrual basis. The significant accounting policies of the Company are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, ECDI and BIDCO. Significant intercompany transactions and balances have been eliminated in consolidation.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Debt Securities

Debt securities consist of U.S. Treasury and U.S. Government agencies securities with maturities from one to five years, corporate debt securities with maturities from one to ten years and mortgage-backed securities. Debt securities are carried at fair value in accordance with FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". The fair values for these debt securities are based on quoted market prices. Since ECDI and BIDCO are for-profit corporations, debt securities are presented in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity of Securities" in the separate financial statements of ECDI and BIDCO to include the unrealized gain or loss on debt securities as a component of comprehensive income and shareholders' equity.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Investments

Investments in privately-held companies' subordinated debt and preferred stock are carried at the Company's cost basis in those securities.

Grants

Unconditional grants are recognized as revenue in the period the commitment is received. Grants restricted to and intended for support of future operations and programs are recorded as temporarily restricted net assets in accordance with FASB Statement No. 117 "Financial Statements of Not-for-Profit Organizations". Temporarily restricted net assets at December 31, 2000 will be available for future operations. Grants restricted for loans are recorded as permanently restricted net assets, except for any portion that is allowed for loan losses which is recorded as unrestricted.

Equipment

Equipment is stated at cost if purchased and estimated fair value if donated to the Company. Depreciation of equipment is provided over the estimated useful lives of the respective assets by the straight-line method.

Income Taxes

Based on the Company's proposed activities and support, the Company has received an advance ruling from the Internal Revenue Service for exemption from income taxes as a public charity under Internal Revenue Code Sections 509(a)(2) and 170(b)(1)(A)(vi).

Since ECDI is a limited liability company, no income taxes are provided. The results of operations are reportable by the members of ECDI on their individual federal and state income tax returns.

Income taxes are accounted for by the BIDCO in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Deferred income taxes relate to temporary differences between assets and liabilities recognized differently for financial reporting purposes and for income tax purposes. Deferred tax assets and liabilities pertain to the allowance for loan losses and unrealized gain on securities, and are included in other assets and liabilities in the accompanying consolidated statement of financial position as of December 31, 2000.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

Accounting Policies (continued)

Contributed Facilities and Services

In 2000 and 1999, the Company occupied certain premises located in a building owned by a company with which a member of the Company's board of directors is affiliated. The fair rental value of the premises in excess of the rent charged to the Company in the amount of \$100,000 is reported as in-kind contributions and expenses in the accompanying consolidated statements of activities and changes in net assets.

A law firm contributed legal services to the Company for the development finance program in 2000 and 1999. The fair value of the services in the amount of \$1,513 and \$1,919 in 2000 and 1999, respectively, is reported as in-kind contribution and expense in the accompanying consolidated statements of activities and changes in net assets.

Loans

Interest income is computed on the loan balance outstanding and is accrued as earned. The Company discontinues the accrual of interest and recognizes income only as received when, in management's judgment, the collection of interest is doubtful.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate by management to provide for potential loan losses. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, growth and composition of the loan portfolio, economic conditions and other relevant factors. The allowance is increased by provisions for loan losses charged to expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Summarized Financial Information

The consolidated statement of activities and changes in net assets includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 1999 from which the summarized information was derived.

2. Grants Receivable and Revenues

The Company's management anticipates grants receivable of \$5,112,500 will be received and available for support of the Company's programs in 2001 and 2002.

Revenues from grants in 1999 include \$2,500,000 from a company with which a member of the Company's board of directors is affiliated.

3. Loans and Commitments

All of the Company's loans were commercial at December 31, 2000 and 1999. These loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50% to 100%. Commercial loans are typically guaranteed by the principals of the borrower.

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

3. Loans and Commitments (continued)

The Company's maximum exposure to credit loss for loan commitments (unused lines of credit) was as follows at December 31, 2000:

2001	\$1,366,322
2002	1,264,269
2003	584,867
	<u>\$3,215,458</u>

The Company's total loan commitments at December 31, 1999 were \$1,686,299. The lines of credit are callable by the Company at any time.

Transactions in the allowance for loan losses are summarized as follows:

	December 31	
	2000	1999
Balance at beginning of year	\$1,360,000	\$ 1,490,000
Provision charged to program expenses	1,625,159	1,514,790
Loans charged off	(510,159)	(1,644,790)
Balance at end of year	<u>\$2,475,000</u>	<u>\$ 1,360,000</u>

The Company had 12 non-accrual loans totaling \$1,962,850 at December 31, 2000 and nine non-accrual loans totaling \$633,656 at December 31, 1999.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

4. Equipment

Equipment consisted of the following:

	December 31	
	2000	1999
Computer equipment	\$ 231,591	\$ 208,194
Office equipment	82,649	78,795
	314,240	286,989
Accumulated depreciation	(180,879)	(160,481)
	\$ 133,361	\$ 126,508

5. Long-Term Debt

Long-term debt consisted of the following:

	December 31	
	2000	1999
3% note payable, with interest due quarterly, maturing in 2002	\$1,000,000	\$1,000,000
1% note payable, with interest due quarterly, maturing from 2004 through 2006	2,000,000	2,000,000
3% note payable, with interest due quarterly, maturing in 2007	400,000	400,000
4.5% note payable, with interest due semi-annually, maturing in 2003	500,000	500,000
2% note payable, with interest due quarterly, maturing in 2004	250,000	250,000
4% note payable, with interest due quarterly, maturing in 2003	400,000	400,000
3% note payable, with interest due annually, maturing in 2005	250,000	250,000
1% note payable, with interest due quarterly, maturing from 2008 through 2010	1,500,000	-
1% note payable, with interest due annually, maturing in 2010	1,500,000	-
Other notes payable with interest at 1% to 3%, maturing from 2002 through 2005	260,000	235,000
	\$8,060,000	\$5,035,000

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt

The \$1,500,000 note payable maturing in 2010 is a loan obtained from a company with which a member of the Company's board of directors is affiliated.

The maturities of long-term debt at December 31, 2000 are as follows:

2002	\$1,040,000
2003	905,000
2004	905,000
2005	810,000
Thereafter	4,400,000
	<u>\$8,060,000</u>

6. Minority Interest

ECDI issued 60 and 4 Class A units in 2000 and 1999, respectively, at \$25,000 per unit pursuant to a private placement memorandum. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The other four members are appointed by the Company, the sole Class B unitholder. ECDI issued 25 and 26 Class C units in 2000 and 1999, respectively, at \$100,000 per unit pursuant to a private placement memorandum. The changes in minority interest are as follows:

	December 31	
	2000	1999
Balance at beginning of year	\$5,547,035	\$3,133,875
Proceeds from private placement	4,000,000	2,700,000
Dividends	–	(93,958)
Net loss	(430,974)	(142,003)
Net unrealized gain (loss) on debt securities	93,369	(50,879)
Balance at end of year	\$9,209,430	\$5,547,035

ECDI had dividends in arrears totaling \$114,775 at December 31, 2000 related to the Class A units.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

7. General Administration Expenses

General administration expenses include all of the consolidated expenses of ECDI, which totaled \$1,302,747 and \$457,848 in 2000 and 1999, respectively, net of intercompany transactions eliminated in consolidation.

8. Retirement Plan

The Company sponsors a defined contribution retirement plan (the "Plan") for all employees. The Company's contributions to the Plan are based on 12% of each employee's salary. Expenses of the Plan were \$158,030 and \$123,615 in 2000 and 1999, respectively.

9. Contingencies

The Company is involved in litigation incidental to its business. Management is of the opinion that the outcome of these matters, upon the advice of counsel, will not have a material adverse effect on the Company's consolidated financial position.

Enterprise Corporation of the Delta

Schedule of Consolidated Expenses by Natural Classification

	Year ended December 31	
	2000	1999
Salaries and temporary personnel	\$1,634,347	\$1,335,447
Payroll taxes and employee benefits	419,487	342,844
Bank and payroll fees	61,645	47,225
Conferences and employee training	28,913	14,430
Contractual services	421,954	457,769
Copying and printing	27,940	21,446
Equipment, furniture and fixtures	19,414	20,041
Insurance	37,274	10,450
Meetings and participant travel	6,051	8,456
Miscellaneous	1,775	628
Office supplies and equipment maintenance	43,162	41,595
Postage	17,144	16,180
Professional fees and dues	14,832	13,805
Rent and employee parking	36,539	34,007
Rent – in-kind	100,000	100,000
Staff recruitment	10,041	22,916
Telephone and utilities	118,207	92,386
Travel – staff	126,649	111,974
Interest	154,469	106,405
Provision for loan losses	1,625,159	1,514,790
Depreciation	41,447	78,558
Loss on disposal of equipment	4,289	–
	<u>\$4,950,738</u>	<u>\$4,391,352</u>