

ENTERPRISE CORPORATION OF THE DELTA

Consolidated Financial Statements and Other Financial Information
Years ended December 31, 2001 and 2000

Enterprise Corporation of the Delta

Consolidated Financial Statements
and Other Financial Information

Years ended December 31, 2001 and 2000

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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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and their consolidated cash flows for the years then ended, and the changes in their consolidated net assets for the year ended December 31, 2001, 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 8, 2002

Enterprise Corporation of the Delta

Consolidated Statements of Financial Position

	December 31	
	2001	2000
Assets		
Cash and cash equivalents	\$ 9,025,601	\$ 3,212,760
Certificate of deposit	–	100,000
Grants receivable	15,233,400	5,112,500
Other receivables	301,241	37,720
Loans	17,512,777	12,961,767
Allowance for loan losses	(3,900,000)	(2,475,000)
Loans, net	13,612,777	10,486,767
Interest receivable	256,674	313,525
Prepaid expenses	65,623	37,561
Debt securities	14,832,084	17,619,107
Investments in privately-held companies:		
Subordinated debt securities	575,000	575,000
Preferred stock	1,585,172	902,500
Equipment, net	175,775	133,361
Other assets	125,005	8,550
Total assets	<u>\$55,788,352</u>	<u>\$38,539,351</u>
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 221,592	\$ 176,734
Other liabilities	–	9,329
Long-term debt	8,058,750	8,060,000
Total liabilities	<u>8,280,342</u>	<u>8,246,063</u>
Net assets		
Unrestricted	4,925,733	4,526,711
Minority interest in ECDI	7,991,338	9,209,430
Unrestricted	12,917,071	13,736,141
Temporarily restricted	11,056,014	3,197,147
Permanently restricted	23,534,925	13,360,000
Total net assets	<u>47,508,010</u>	<u>30,293,288</u>
Total liabilities and net assets	<u>\$55,788,352</u>	<u>\$38,539,351</u>

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, 2000

	Year ended December 31, 2001				December 31 2000
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues and gains					
Grants and contributions	\$ 31,000	\$11,851,007	\$10,170,800	\$22,052,807	\$ 4,727,500
In-kind contributions	100,653	–	–	100,653	101,513
Interest and dividends:					
Loans and other investments	1,015,247	–	–	1,015,247	1,027,878
Debt securities and cash equivalents	1,004,858	–	4,125	1,008,983	1,414,144
Net unrealized gain on debt securities	22,525	–	–	22,525	188,478
Net realized gain on sales of debt securities	195,103	–	–	195,103	3,989
Loan fees and other revenue	161,343	–	–	161,343	109,663
	2,530,729	11,851,007	10,174,925	24,556,661	7,573,165
Net assets released from restrictions:					
Satisfaction of program restriction	1,317,140	(1,317,140)	–	–	–
Expiration of time restrictions	2,675,000	(2,675,000)	–	–	–
Total revenues and gains	6,522,869	7,858,867	10,174,925	24,556,661	7,573,165
Expenses					
Program expenses:					
Development finance	3,316,750	–	–	3,316,750	2,595,803
Technical assistance	469,631	–	–	469,631	340,353
Housing initiative	191,024	–	–	191,024	31,982
Other programs	749,613	–	–	749,613	–
	4,727,018	–	–	4,727,018	2,968,138
General administration (<i>Note 7</i>)	2,317,645	–	–	2,317,645	1,642,774
Fund-raising and communication	347,276	–	–	347,276	339,826
Total expenses	7,391,939	–	–	7,391,939	4,950,738
Change in net assets before minority interest	(869,070)	7,858,867	10,174,925	17,164,722	2,622,427
Minority interest	50,000	–	–	50,000	4,000,000
Change in net assets	(819,070)	7,858,867	10,174,925	17,214,722	6,622,427
Net assets at beginning of year	13,736,141	3,197,147	13,360,000	30,293,288	23,670,861
Net assets at end of year	\$12,917,071	\$11,056,014	\$23,534,925	\$47,508,010	\$30,293,288

See accompanying notes.

Enterprise Corporation of the Delta
Consolidated Statements of Cash Flows

	Year ended December 31	
	2001	2000
Operating activities		
Change in net assets	\$ 17,214,722	\$ 6,622,427
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Minority interest	(50,000)	(4,000,000)
Depreciation	58,556	41,447
Provision for loan losses	2,425,958	1,625,159
Unrealized gain on debt securities	(22,525)	(188,478)
Deferred income taxes	8,550	(8,550)
Loss on disposal of equipment	1,710	4,289
Increase in grants and other receivables, prepaid expenses, interest receivable and other assets	(10,480,637)	(2,286,124)
Increase in accounts payable, accrued expenses and other liabilities	35,529	119,702
Net cash provided by operating activities	9,191,863	1,929,872
Investing activities		
Net increase in loans	(5,551,968)	(6,350,199)
Purchases of debt securities	(29,622,536)	(24,629,564)
Proceeds from maturities and sales of debt securities	31,749,412	23,402,702
Proceeds from certificate of deposit	100,000	—
Purchases of equipment	(102,680)	(52,589)
Net cash used in investing activities	(3,427,772)	(7,629,650)
Financing activities		
Proceeds from private placement	50,000	4,000,000
Long-term borrowings	—	3,025,000
Payments on long-term borrowings	(1,250)	—
Dividends paid	—	(93,958)
Net cash provided by financing activities	48,750	6,931,042
Net increase in cash and cash equivalents	5,812,841	1,231,264
Cash and cash equivalents at beginning of year	3,212,760	1,981,496
Cash and cash equivalents at end of year	\$ 9,025,601	\$ 3,212,760
Supplemental disclosure—		
Interest paid	\$ 150,000	\$ 154,000

See accompanying notes.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements

December 31, 2001

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.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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.

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, 2001 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.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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).

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 net operating loss carryforwards, the allowance for loan losses and unrealized gain on securities. A valuation allowance was recorded as of December 31, 2001 to offset the net deferred tax assets. At December 31, 2001, the BIDCO has net operating loss carryforwards of approximately \$314,000 expiring in 2021 available to reduce future taxable income.

Contributed Facilities and Services

In 2001 and 2000, 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 2001 and 2000. The fair value of the services in the amount of \$653 and \$1,513 in 2001 and 2000, respectively, is reported as in-kind contribution and expense in the accompanying consolidated statements of activities and changes in net assets.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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 probable loan losses related to specifically identified loans and for losses inherent in the loan portfolio that has been estimated as of the balance sheet date. 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.

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, 2000 from which the summarized information was derived.

Reclassification

Certain reclassifications have been made to the 2000 consolidated financial statements to conform to the 2001 presentation.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

2. Grants Receivable and Revenues

The Company's management anticipates grants receivable at December 31, 2001 will be received and available for support of the Company's programs as follows.

2002	\$ 6,596,600
2003 through 2005	<u>9,812,800</u>
	16,409,400
Less adjustment to reflect grants receivable at fair value (discounted cash flows)	<u>(1,176,000)</u>
	<u><u>\$15,233,400</u></u>

3. Loans and Commitments

All of the Company's loans were commercial at December 31, 2001 and 2000. 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.

The Company's maximum exposure to credit loss for loan commitments (unused lines of credit) was as follows at December 31, 2001:

2002	\$ 238,907
2004	261,412
2006	<u>533,143</u>
	<u><u>\$ 1,033,462</u></u>

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

3. Loans and Commitments (continued)

The lines of credit are callable by the Company at any time. The Company's total loan commitments at December 31, 2000 were \$3,215,458.

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

	December 31	
	2001	2000
Balance at beginning of year	\$ 2,475,000	\$1,360,000
Provision charged to program expenses	2,425,958	1,625,159
Loans charged off	(1,000,958)	(510,159)
Balance at end of year	\$ 3,900,000	\$2,475,000

The Company had non-accrual loans with 28 customers totaling \$6,472,953 at December 31, 2001 and non-accrual loans with seven customers totaling \$2,147,336 at December 31, 2000.

4. Equipment

Equipment consisted of the following:

	December 31	
	2001	2000
Computer equipment	\$ 296,642	\$ 231,591
Office equipment and other	103,259	82,649
	399,901	314,240
Accumulated depreciation	(224,126)	(180,879)
	\$ 175,775	\$ 133,361

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt

Long-term debt consisted of the following:

	December 31	
	2001	2000
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	1,500,000
1% note payable, with interest due annually, maturing in 2010	1,500,000	1,500,000
Other notes payable, with interest at 1% to 3%, maturing from 2002 through 2005	258,750	260,000
	\$8,058,750	\$8,060,000

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, 2001 are as follows:

2002	\$1,040,000
2003	905,000
2004	938,750
2005	775,000
Thereafter	4,400,000
	\$8,058,750

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

6. Minority Interest

ECDI issued 1 and 60 Class A units in 2001 and 2000, 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 25 Class C units in 2001 and 2000, respectively, at \$100,000 per unit pursuant to a private placement memorandum. The changes in minority interest are as follows:

	December 31	
	2001	2000
Balance at beginning of year	\$ 9,209,430	\$5,547,035
Proceeds from private placement	50,000	4,000,000
Net loss	(1,253,947)	(427,941)
Net unrealized gain (loss) on debt securities	(14,145)	90,336
Balance at end of year	<u>\$ 7,991,338</u>	<u>\$9,209,430</u>

ECDI had dividends in arrears totaling \$114,775 at December 31, 2001 related to the Class A units.

7. General Administration Expenses

General administration expenses include all of the consolidated expenses of ECDI, which totaled \$1,991,872 and \$1,302,747 in 2001 and 2000, 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 \$198,292 and \$158,030 in 2001 and 2000, respectively.

Enterprise Corporation of the Delta

Notes to Consolidated Financial Statements (continued)

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	
	2001	2000
Salaries, employee taxes and benefits	\$2,719,052	\$2,053,834
Bank and payroll fees	60,409	61,645
Conferences and employee training	31,817	28,913
Contractual services	1,223,115	421,954
Dues, fees and memberships	10,975	11,328
Equipment, furniture and fixtures	18,966	19,414
Insurance	74,781	37,274
Miscellaneous	6,751	5,296
Office supplies	88,071	82,236
Rent and employee parking	51,969	36,539
Rent – in-kind	100,000	100,000
Repairs and maintenance	6,243	6,010
Service fees	9,957	3,504
Staff recruitment and relocation	37,393	10,041
Taxes and licenses	14,403	2,733
Telephone and utilities	126,387	118,207
Travel	169,406	132,700
Interest	149,766	154,469
Provision for loan losses	2,425,958	1,625,159
Depreciation	58,556	41,447
Loss on disposal of equipment	1,710	4,289
Income tax expense (benefit)	6,254	(6,254)
	\$7,391,939	\$4,950,738