



Investing in Community Change

Fiscal Year 2005 Business Development Activities Report

The Mountain Association for Community Economic Development (MACED) works to create economic alternatives that make a difference to people and places in eastern Kentucky and Central Appalachia. For almost 30 years, we have been investing financial capital and human resources in community economic development activities and business ideas that work for rural communities.


Mountain Association for Community Economic Development



“Just knowing that there is something behind us besides our shadow on the floor gives us confidence in what we do.”

— *Small Stuff, Inc.*

Program Overview

MACED believes that one cornerstone of a thriving community lies in the success of its businesses, both large and small. When local businesses succeed, they create positive ripple-like economic and social change throughout the community. Successful businesses are more likely to create meaningful and well-paying jobs in rural communities and help improve the quality of life of its citizens.

MACED's business development program makes capital and human resource investments in small eastern Kentucky and Central Appalachian businesses by providing loans to those who have had trouble securing bank financing but who are contributing to the employment and economic vitality of the region.

Our lending is based on three major strategies.

- Targeted loans that strengthen or protect natural resources, cultural resources and critical community services (health care and day care) that also provide economic opportunities.
- Microloans (under \$35,000) to support the development of small-scale enterprises that generate income or provide employment.
- Larger loans (up to \$300,000) aimed at creating good employment opportunities for low-income residents of the region.

MACED couples capital investment with vital business assistance. All of our businesses have access to free, short-term, one-on-one technical assistance, as well as technical assistance loans for longer-term engagements. These are 0% interest loans to work with consultants or attend trainings that build business infrastructure and lead to a resilient and profitable company.

At MACED, we believe in measuring and tracking what is important to our work and holding ourselves accountable to end results. This report shares the results of our business development activities from May 1, 2004 to April 30, 2005, the end of MACED's 2005 fiscal year.

Methodology

The following information was derived from internal records and a comprehensive survey that was distributed in the summer of 2005 to the 64 loan customers that were in MACED's portfolio prior to January 1, 2004. The survey data provided aggregate information about MACED's borrower sales, income, community involvement and demographics. The information will be used to set a baseline for future years.

Fiscal Year 2005— Performance Scorecard Summary

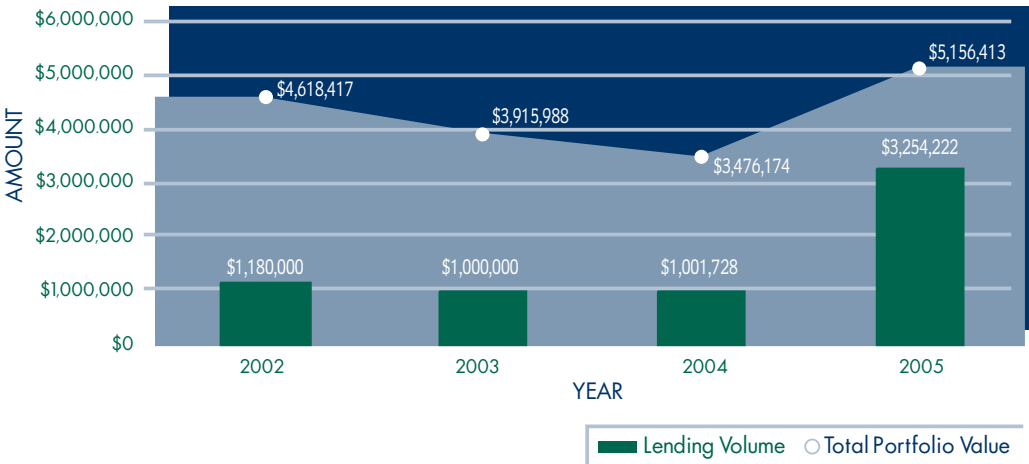
(Fiscal Year ending April 30, 2005)

- 48% increase in portfolio value to over \$5 million
- 64% increase in total annual lending volume
- 213% increase in the total number of loans under management since 2002
- 31% of all borrowers are women-owned businesses, up from 6% in 2002
- 30% of MACED's portfolio is comprised of startup businesses
- MACED's portfolio generated over \$244 million in total sales
- Delinquency rates have decreased significantly to 6% of funds-at-risk
- 526 jobs were affected through businesses receiving financing in FY 2005

Portfolio Activity

In early 2004, MACED leadership decided to invest additional resources in our small business development efforts. Additional staff, new leadership and the opening of a new office in Paintsville, KY paved the way for the most productive year in our history. In fiscal year 2005, MACED made 64 loans totaling \$3.25 million and had 95 loans under management. This is a 41% annual growth rate in loan volume since 2002. For the 12 months ending April 30, 2005, MACED achieved a 131% increase in loan volume and the total portfolio value grew to approximately \$5.1 million, a 48% increase from the total value in 2004.

MACED Loan Portfolio Activity 2002–2005

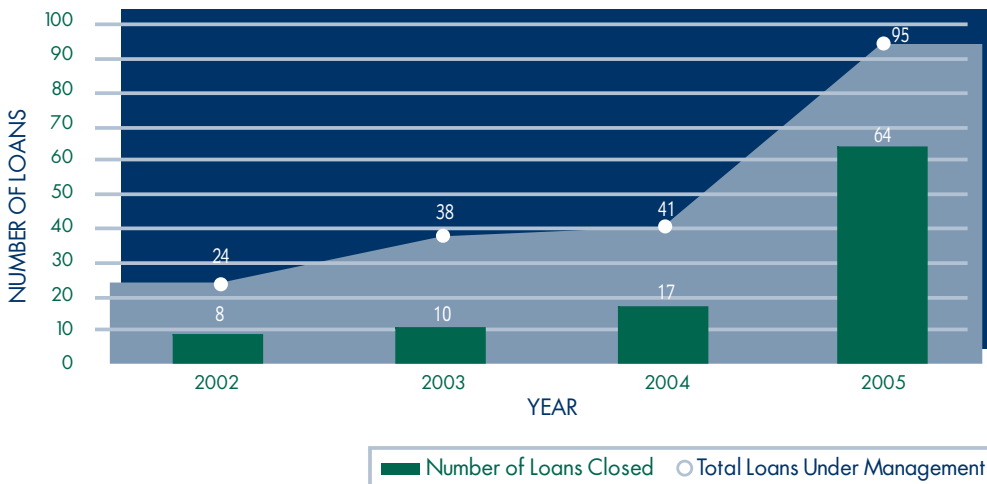


Since 2002, MACED's portfolio has seen changes in its sectoral distribution. In 2002 MACED had no investments in the agriculture, critical care, medical services, arts or tourism sectors. As of 2005, MACED has made investments in all of these sectors and continues to diversify our portfolio.

Sixty-four percent of all microbusiness employees served the retail or service sectors, while 65% of all employees working in larger businesses were in the manufacturing sector.

In 2005, despite high loan volume, MACED's delinquency rate was reduced significantly from 14% the previous year to 6%.

MACED Loan Portfolio Activity 2002–2005

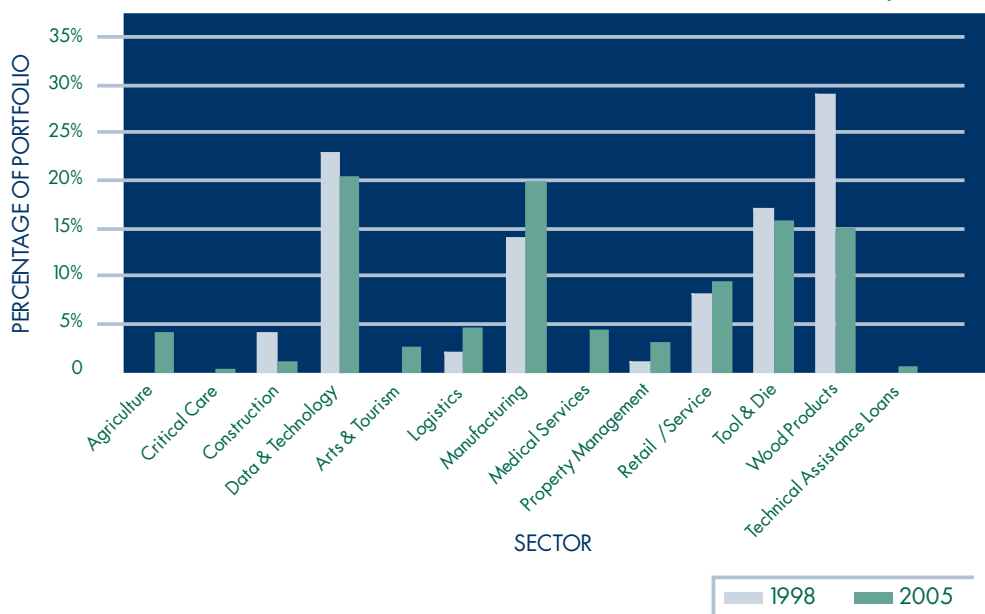


MACED Delinquency Rates 2002-2004

Year	2002	2003	2004	2005
Delinquency Rate	10%	13%	14%	6%

This was due to stronger due diligence, more stringent underwriting and creative loan structuring. In addition, a factor that contributed to lower delinquency rates among MACED businesses in 2005 was greater access to high quality pre- and post-loan technical assistance and a new technical assistance loan product. A no interest loan is available to borrowers to fund one-on-one support on a range of business management issues, from finance to marketing.

Portfolio Distribution Comparison



Technical Assistance

In FY 2005, we provided 14 technical assistance loans, providing for over 800 hours of direct one-on-one business and financial assistance to portfolio clients and pre-loan businesses. We provided technical assistance to more than 80 borrowers and potential loan customers including direct assistance from MACED staff, referrals and the provision of contracted services.

Local Ownership

Since January 2004, 89% of the loans MACED approved have gone to business owners who work and live in the community where their business is located. MACED believes that communities are better served when businesses are owned by local people. Local business owners keep wealth local, possess a greater sense of community commitment and have more control over jobs, prices, environmental effects and labor conditions.

Investing in the Future of the Region

MACED is investing in the future of the Appalachian region. Providing financial support is not only important for the continued success of established businesses, but is pivotal for the creation of emerging small businesses. Thirty percent of our new loans were invested in startup businesses.

Percentage of Years in Business

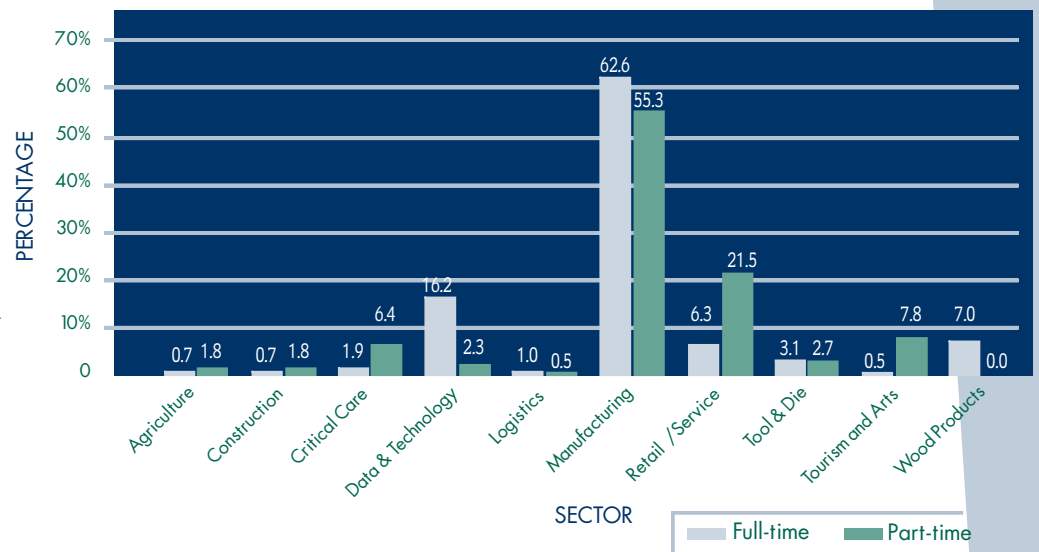
0-1 years	2-3 Years	3-4 Years	5-14 Years	15+ Years
30%	19%	5%	35%	11%

MACED believes that women-owned businesses play a major role in the present and future economic development of our region. We are committed to strengthening the leadership role women play in the business community. In 2001, only one business in the MACED portfolio was woman-owned. By the end of fiscal year 2005, 31% of business owners in our portfolio were women.

Our Employers and Their Employees

The establishment of small businesses is critically important for the creation and retention of jobs in the community.

Percentage of Portfolio Employment by Sectors

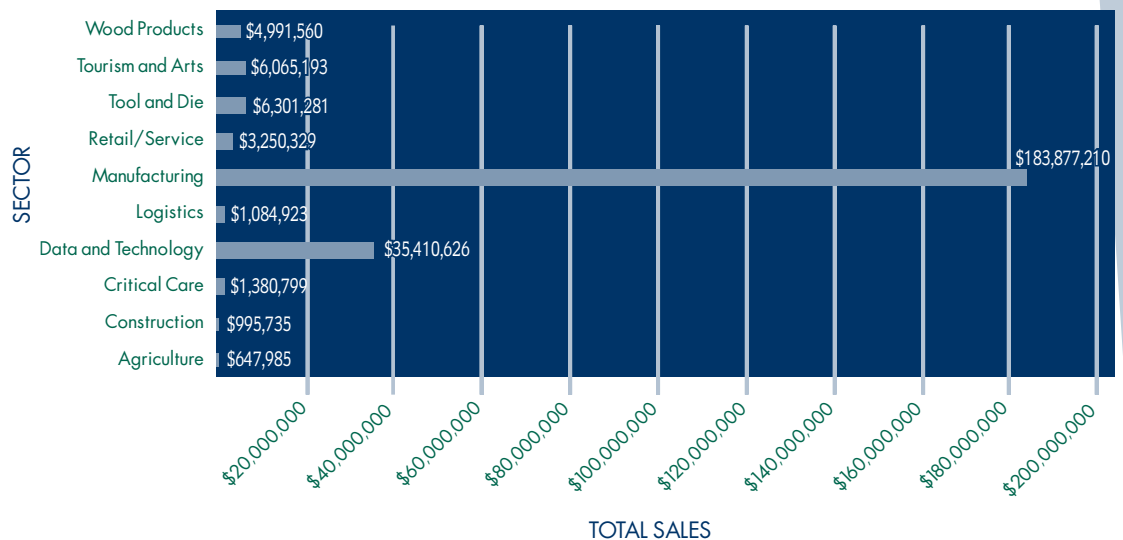


Number of Male and Female Owners (51% or more ownership)

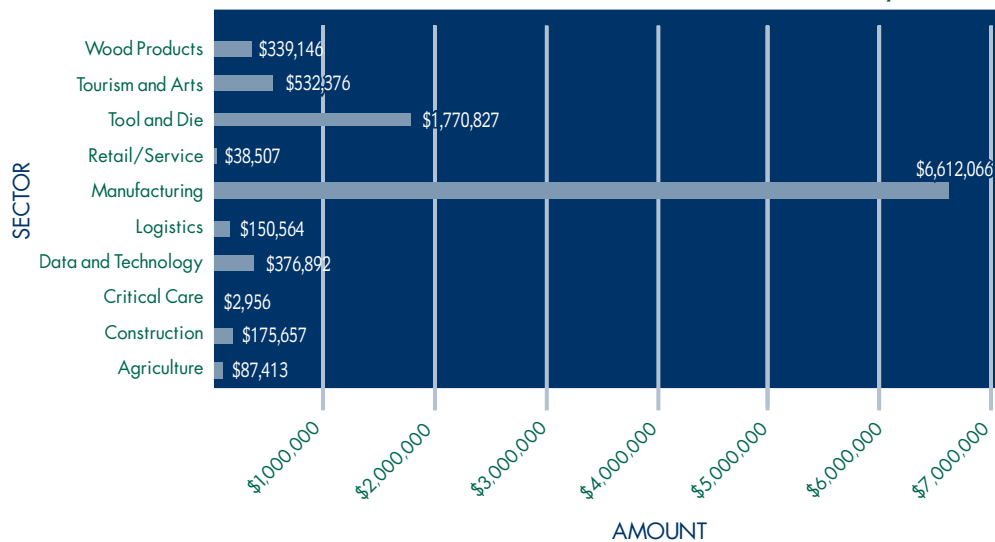
	2001	2005
Male	20 (95.3% of portfolio)	43 (69% of portfolio)
Female	1 (4.7% of portfolio)	20 (31% of portfolio)

At the end of fiscal year 2005, MACED's borrowers provided 1,721 jobs in the region. On average, our microbusinesses borrowers employed three people, while our larger business borrowers employed 45. Microbusinesses in our portfolio employed 85 full- and part-time workers and larger businesses employed 1,636 full- and part-time workers.

Total Portfolio Sales by Sector



Net Income by Sector Technology Access

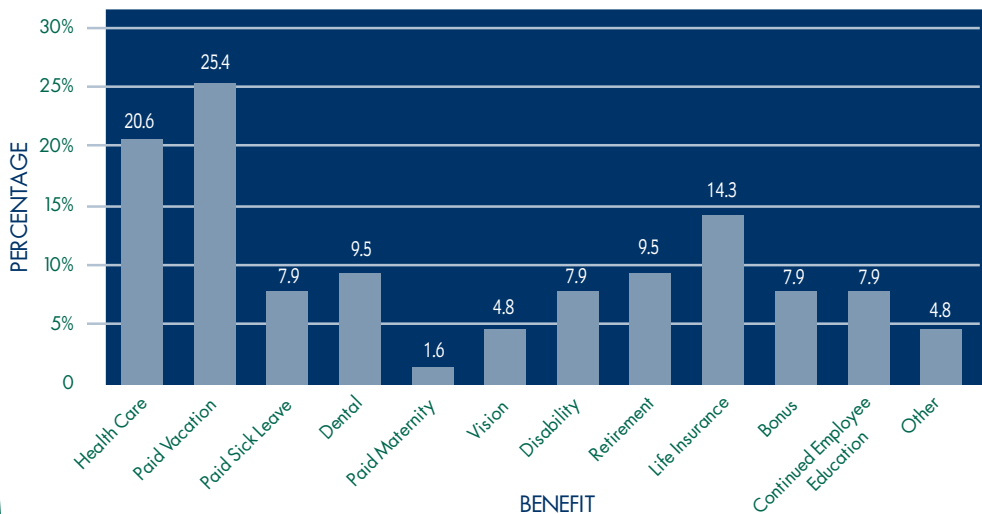


For a business to be as successful as possible, MACED believes that access to and an understanding of technology is essential. Businesses that have access to technology are better able to locate and utilize resources. Of the entire borrower portfolio, eighty-four percent of businesses had access to the Internet, with 66% on high speed. However, less than 50% have a dedicated business website.

Benefits

Businesses that provide their employees with health, retirement and profit-sharing benefit packages are essential to the asset-building opportunities of local residents. Of portfolio companies, 65% offer one or more of the benefits that MACED believes are beneficial to employees. Due to the high cost of health insurance, only 20.6% of companies in MACED's portfolio pay 100% of employee health care costs. Companies understand the need to offer benefits to keep employees, but as one business recently stressed, "we can't afford them (health benefits), but we can't afford not to offer them."

Percentage of MACED's Portfolio Offering Benefits



Business Performance

In fiscal year 2005, borrowers in MACED's portfolio generated over \$244 million in annual sales and generated a net profit of \$10,086,404. Microbusinesses averaged a net profit of \$10,583 while larger businesses averaged a net profit of \$320,573.

"This is a dream come true for us. We couldn't have done it without MACED."

— Little Angels Child Development Center

Looking to the Future

Fiscal year 2006 will deepen the impact of our investment dollars as MACED continues to invest significant resources into small business development in eastern Kentucky. We are planning for continued growth and will introduce new product and service innovations. For example, to address the gaps in health care coverage in our portfolio, we are piloting a program to help borrowers assess the costs and benefits of offering medical plans to their employees.

Through our Employee Advance Payday Loan Alternative, we plan to introduce a product to combat the debt traps created by payday advance loans. We are also researching a pilot sustainable forestry loan program and community-based solutions to broadband Internet access.

Contact us for information about our business development or other programs.

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