APPALACHIAN COMMUNITY CAPITAL

2021 Investment Prospectus

APPALACHIAN
COMMUNITY CAPITAL
Established 2013

EXECUTIVE SUMMARY

Small businesses play a critical role in the economic development of low-income communities. Because these businesses tend to hire locally, they create a ripple effect of economic growth that is especially important in low-income communities. They create new jobs, help business owners and their employees build wealth, and provide much-needed services while ensuring that money stays in the community and supports the local economy.

Despite their importance in helping to boost the economy, small business owners have found it difficult to obtain bank loans to grow their businesses. As the country began to recover from the financial crisis, it was estimated that 8,000 small business loan applications were being declined by banks daily. In recent years, the declining number of community banks due to consolidations and closings and the difficulty small business owners face in meeting conventional lending requirements of large institutions have only compounded the problem.

In places like Appalachia, access to capital continues to be a challenge for growing businesses, especially for those located in the region's more economically distressed areas. But there is an option available to these small businesses: Community development financial institutions (or CDFIs) are dedicated to delivering responsible, affordable lending to underserved people and communities and helping them join the economic mainstream. Over 1,200 CDFIs are at work in all 50 states.

Appalachian Community Capital (ACC), a CDFI, was created in 2013 to enable local entrepreneurs and small business owners to start or grow their own enterprises, create high quality jobs, retain local earnings, and ultimately improve the quality of life for people in Appalachia. ACC is a member organization that serves as a lending intermediary. To that end, it raises capital from the public and private sectors for its 20 member borrowers. These high-performing community development lenders then lend to small business owners and entrepreneurs in the region.

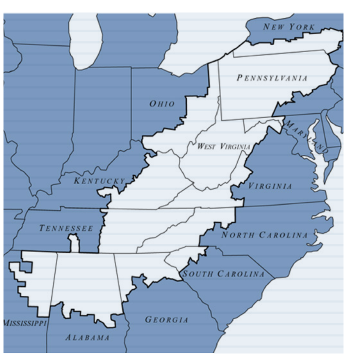
As of December 31 ACC has used $18.2 million to underwrite and disburse $15.9 million in loans to ACC members. These businesses helped create or retain approximately 2,000 jobs across Appalachia. ACC also provided training, technical assistance, and other development services designed to strengthen CDFIs' organizational and lending capacity and ensure their creditworthiness and sustainability.

ACC envisions a time when large, diverse groups of small business owners and entrepreneurs living in economically struggling communities in Appalachia will have access to the tools (affordable credit, training, and mentoring) that will lead to thriving businesses and enable owners to build assets and create wealth in the region.

To fulfill this vision, ACC is working hard to build its operating capacity so that it can focus on raising the necessary "patient" capital for its members. A benefit in achieving this goal is that ACC members can expand their lending and provide more low-cost loans and one-on-one business advisory services to small business owners who have the drive and ambition, but just need additional resources to succeed.

APPALACHIA – *A Study in Contrasts*

The resilience and determination of the Appalachian Region has never been more evident than now, as many in the region work diligently to create new enterprises and jobs in the face of a declining coal industry. But the region remains a study in contrasts. While some areas are successfully diversifying their economies, others, particularly in Central Appalachia, are struggling to grow new industries, provide sustainable livelihoods for their residents, and restore quality of life.



The Appalachian Region follows the spine of the Appalachian Mountains. It includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. The region is home to more than 25 million people and covers 420 counties and almost 205,000 square miles.

According to a recent report[1] by the Appalachian Regional Commission, the record of progress in the region over the past few decades includes these accomplishments:

- **The region's poverty rate has decreased from nearly 31 percent in 1960 to 17 percent today and the number of high-poverty counties (those with poverty rates one and a half times the national average) has decreased from 295 in 1960 to 90 today.**
- **The percentage of adults in the region with a high school diploma has increased by more than 150 percent and students in Appalachia now graduate from high school at nearly the same rate as the national average.**
- **The infant mortality rate in the region has been reduced by two-thirds since 1960.**

Despite this progress, continued investment is needed. Appalachian communities have long grappled with the outmigration of people and jobs, poverty, and unemployment. The impacts of this hardship have looked different across the region and over time. Currently, substance use disorder and the opioid crisis are hitting many Appalachian communities hard.

A robust small business ecosystem could help address some of these continued challenges. However, a related and equally difficult challenge is the lack of financial and technical support for business creation and expansion in Appalachia. This has been a historic problem in the region relative to many other parts of the country. Lending to businesses in economically distressed communities of Appalachia is 56 percent below national levels. As a result, there is higher unmet loan demand in Appalachia than in the nation.

[1] "Investing in Appalachia's Future: The Appalachian Regional Commission's Five-Year Strategic Plan for Capitalizing on Appalachia's Opportunities 2016–2020."

OUR ROLE

Not only is affordable capital and credit in short supply, so are capacity-building resources that would help small business owners grow and sustain their enterprises.

In 2013, the Appalachian Regional Commission and 11 community development lenders who lived and worked in Appalachia joined forces to establish Appalachian Community Capital. ACC was created to significantly increase business lending in the region by 1) pooling capital needs, 2) attracting investors at a larger scale, and 3) providing a simplified vehicle for impact investors that reduces transaction costs. As a regional intermediary with sophisticated development finance expertise and partnerships with major national investors, ACC can attract sources of capital that its members would not otherwise have been able to access. Its investors include Bank of America, Deutsche Bank, the Ford Foundation, the Calvert Foundation, the Appalachian Regional Commission, and others.

ACC is one of only a handful of CDFI intermediaries in the country and the only one in Appalachia focused on small business lending. ACC and its members are mission-driven organizations that support growth and sustainability of low-wealth communities. Certified by the U.S. Department of Treasury, these CDFIs are committed to helping meet the credit needs of underserved communities.

ACC raises debt capital throughout the year and accepts loan applications from members on a rolling basis. Typical loan amounts range between $50,000 and $3 million with terms from 2 to 7 years. An underwriter evaluates the member's creditworthiness, pipeline projects, and other pertinent information and prepares a credit memo for review by and discussion with ACC's loan committee. The committee decides whether to approve or disapprove the loan request and if the request is approved, the member then relends the funds received to small businesses and entrepreneurs in Appalachia.

Green Opportunities: Photo credit: Gwen Hill

In addition to lending, ACC's certification as a CDFI by the U.S. Treasury requires it to provide development services to its borrowers. ACC arranges peer-to-peer exchanges so that members can discuss topics of interest and share information; provides training opportunities; convenes meetings between members and funders to discuss potential partnerships; and offers technical assistance to members, particularly the smaller organizations.

WHAT ARE CDFIs?

CDFIs share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses.

They can be banks, credit unions, loan funds, microloan funds, or venture capital providers. They help families finance their first homes, support community residents in starting businesses, and invest in local health centers.

There are more than 1,000 CDFIs operating nationwide. They are a collaborative force that brings together diverse private and public sector investors to create economic opportunity in low-income communities.

TRACK RECORD OF SUCCESS

ACC has a proven track record of turning investments into on-the-ground results. Since 2015, when ACC first began lending, through year-end 2020:

- $18.2 million in investment capital has been used to underwrite and disburse $15.9 million in loans to ACC members.
- Using ACC proceeds, members have made 94 small business loans in Appalachia ranging from $20,000 to $2 million.
- Forty-five of the 94 loans (48%) were to minority-and/or women-owned businesses.
- Small businesses financed by members have helped to create or retain 1,981 jobs; over 40% of these jobs are occupied by low-income individuals.
- ACC has provided technical assistance and loans to smaller CDFIs in the region.
- ACC has received clean audit opinions annually.
- Since deploying its initial $12 million investment, ACC has raised or has been awarded an additional $7.3 million. It has also applied for and received three highly competitive grant awards, for a total of $1.5 million, from the U.S. Treasury's CDFI Fund. These grants were used to make additional small business loans and for loan loss reserves.
- Membership has increased from 12 to 23 mission-based lenders, and includes smaller asset size CDFIs, as well as new CDFIs. These smaller organizations have received ACC investments, which have contributed to their growth.

ACC's impact to date can best be demonstrated by the borrowers who have received funding from ACC through its members. Three examples can be found on the following pages.

ACC Members

- Access to Capital for Entrepreneurs (GA)
- Alternatives Federal Credit Union (NY)
- Appalachian Development Corporation (SC)
- Appalachian Growth Capital (OH)
- Bridgeway Capital (PA)
- Carolina Small Business Development Fund (NC)
- Community Works (SC)
- Finance Fund Capital Corporation (OH)
- Hampton Roads Ventures, LLC (VA)
- Kentucky Highlands Investment Corporation (KY)
- LiftFund (AL, KY)
- Mountain Association for Community Economic Development (KY)
- Mountain BizWorks (NC)
- Natural Capital Investment Fund (WVA, NC SC, GA, and the Appalachian regions of MD, VA, KY TN, and OH)
- Pathway Lending (TN and AL)
- People, Inc. (VA)
- Piedmont Business Capital (NC)
- Sabre Finance (AL)
- Southeast Kentucky Economic Development (KY)
- South Carolina Community Loan Fund (SC)
- Three Rivers Planning and Development District (MS)
- Virginia Community Capital (VA)
- Woodlands Community Lenders (WV)

Case study:

SOUND SPACE – *Building on Asheville's History of Music and Black Culture*

Claude Coleman, Jr. on the former site of Rabbit's Motel. Photo by Robin McKinney.

Asheville, N.C. has one of the fastest growing music scenes in America with several dozen venues and live acts performing every night of the week. But musicians have a hard time finding rehearsal space. Enter Claude Coleman, Jr., drummer for the alt-rock band Ween, and his business partner Brett Spivey. Together, they're creating Sound Space, LLC, a recording studio and practice space that will breathe new life into Rabbit's Motel, which was the only lodging available to touring Negro Southern League baseball players and other African-American visitors to Asheville during Jim Crow, and home to a popular soul food café.

With ACC's support, ACC member Natural Capital Investment Fund is providing Sound Space with a loan to renovate the building. Once completed, Sound Space will sell new and used musical equipment, rent practice space, and coordinate lessons and workshops. A local chef (and relative of the original Rabbit's owners) will open a new soul food café on site. The project will also feature a gallery to commemorate the baseball players who stayed at Rabbit's Motel during segregation.

Case study:

CUMBERLAND MACHINERY MOVERS

Photo credit: Cumberland Machinery Movers

Steve Ping and his best friend David Bennett were working for a local machinery moving company in Somerset, Kentucky in the early 1990s when an out-of-state corporation purchased their company. Mr. Ping and Mr. Bennett noticed that the company's value for its employees began to decline. Mr. Ping had a vision to build a machinery moving company that brought integrity back into the business and left the company to start his own in 2004. Cumberland Machinery Movers was born, where valuing the needs of the employees and their community complemented the highly skilled range of services they provide as a rigging and millwright company, which includes moving factory equipment, heavy rigging, overseas crating, and installing new machinery.

The business had grown tenfold less than a decade later when they purchased their original employer, Bailey Machinery Movers. Sadly, Mr. Ping passed away a year later and ownership went to his wife, Susie Ping. Mrs. Ping had was determined to continue providing great service from a company that values both employees and the community.

The company invests in its employees with a wage far above the local standard. Examples of Cumberland Machinery Movers' latest support for its community includes purchasing 1,015 new bicycles for kids and holding a fishing tournament to support an organization that supports local families who have children with autism.

"Every employee, whether they sweep the floor or lift a million pounds has value and we want to make sure our employees know that they are valuable to us. [Mrs. Ping] is very good at doing that, sometimes with just a simple 'thank you,'" stated Mr. Bennett, who now serves as general manager.

Alongside the story of Cumberland Machinery Movers' successful growth–and their ability to use it to support their employees and the community–is ACC member Kentucky Highlands Investment Corporation (KHIC), which provided financial assistance early on in the company's history, whether it was to help buy machinery when Cumberland purchased Bailey Machinery Movers, or to update or repair machinery as the company grew. In 2016, KHIC used $165,000 from a larger loan it had received from ACC to lend to Cumberland Machinery Movers to finance repairs on a truck and to purchase a Landoll equipment trailer.

Cumberland Machinery Movers continues to stay true to their mission to share their success with their now 56 employees, while showing up day in and day out to maintain customers' production schedules with efficient service and an outstanding safety record.

Case study:

VAN HOOSE CO™ PRECAST CONCRETE – *Big Dreams Turn into Reality*

Photo credit: VanHooseCo™

Entrepreneurs think big. They dream, plan, and execute strategies to build and sustain thriving businesses. Jeff Van Hoose is one such entrepreneur. His business, VanHooseCo™Precast Concrete in Tennessee, started small but scaled quickly following the 2008 recession, as it added new divisions and took on new opportunities across the Southeast.

To successfully maintain and fund this growth, Van Hoose needed a financial partner. ACC member Pathway Lending was able to be that partner. With ACC's support, Pathway provided the $2.3 million in financing needed to purchase cutting-edge equipment and double the size of their Loudon County manufacturing facility.

With 165 employees and a growing number of contracts with the Tennessee Department of Transportation, VanHooseCo is building the infrastructure essential to Tennessee's economic growth and prosperity. With new equipment and expanded facilities, VanHooseCo will undoubtedly continue its strong history of growth.

THE NEED FOR CONTINUED GROWTH & A STRATEGY FOR THE FUTURE

Solar Farm at Carilion New River Medical Center

The capital markets for Appalachian CDFIs today are different in comparison to the launch of ACC in 2013. Specifically, while the capital needs of these regional funds remain the same, a continuing shrinkage in the community banking sector is increasing the challenges for raising capital in underdeveloped areas. In a recent survey of one group of Appalachian CDFIs, respondents reported that they would require approximately $65 million in new capital to meet forecasted loan demand over a 2-year period.

Accessing capital can be particularly challenging for smaller and/or rural CDFIs. Many rely on the Community Reinvestment Act (CRA), which obligates financial institutions to meet the credit needs of their communities, including low- and moderate-income areas. However, some of these institutions restrict deployment to specific markets to meet their CRA requirements which, in turn, prevents CDFIs from lending to a broader, underserved geographic area. Even those financial institutions with a long-term presence in the market may not pay much attention to the CDFI sector until CDFIs accumulate a significant amount of assets. This caution is now compounded by a potential economic downturn.

These conditions are further reducing the access to affordable financing for small businesses that create jobs and help stabilize economically struggling communities in the Appalachian region. To address these challenges, ACC has attracted a leader in the community development finance field to serve as CEO of the institution and has assembled a group of seasoned executives to serve as board directors. With this leadership team's direction, ACC refined and enhanced its organizational strategy and established a set of goals and objectives for the next five years to make the CDFI a stronger, well-capitalized institution that is better able to meet the needs of its members and other mission-driven small business lenders throughout Appalachia.

Between 2021 and 2023, ACC will focus its efforts on meeting three primary strategic goals:

1. Effectively execute a strategy for raising $30 million in new capital (debt, grant, and equity): ACC will identify and pursue investment prospects among financial institutions, public-sector agencies, foundations, and impact investors, as well as seek new commitments from existing investors.

2. Build a strong balance sheet and rely less on operating grants: ACC reached a 57% self-sufficiency level in 2018 (earned revenue/total expenses) and will aim to improve this result by generating additional net interest income through raising and deploying the new capital promptly, controlling losses, and perhaps also increasing the deployment rate for participation loans. ACC will also employ other tactics to control or reduce its operating costs. The organization is projected to have a self-sufficiency ratio of 73% or more, and cash coverage (cash income/cash expenses) greater than 120% from FY2019 forward.

3. Augment the organization's human capital resources: Achieving the fundraising goals and expanding its lending activities will require ACC to strengthen its current management team by adding a senior-level professional, capable of filling a leadership role in the organization and allowing the CEO to more actively engage in building the fund's network of lending partners and investors.

ACC's approach to growth is to be bold in seeking new sources of funding; to collaborate with organizations that bring a diversity of experience, such as housing and commercial real estate, to the table; and to help build the capacity of its members to attract larger investors. To generate additional revenue, ACC has begun participating in loans with its members, which helps reduce risk and allows for both entities to participate in larger loans associated with larger projects (manufacturing facilities, for example).

Salt and Smoke, NC

Investment Opportunities

ACC is well on its way to moving to the next level of growth, and investment opportunities abound to ensure that it is addressing the small business credit needs in Appalachia, building the capacity of the organization, and providing the type of training and technical assistance for borrowers that will enable them to better serve their customers.

ACC's financial goals are to 1) increase its asset size from $20 million to $35 million, 2) accrue enough capital to make $30 million worth of loans, 3) generate income from participation loans and any new products and services, and 4) begin relying less on operating grants and show progress in moving to a cash positive position.

By year end 2021, ACC is committing to raising the following:

- **$10 million in debt capital** for additional loans to members. The ACC pipeline is strong. Not only does ACC have new members, but it also has existing members who are interested in obtaining loans because they are expanding their products or expanding their service areas in the region and thus need additional capital to make more loans.

- **$400,000 in grants and/or equity investments** to be used to build ACC's capacity in the following areas:

Loan Loss Reserve

ACC would use funding to cover loan loss reserve. To date, ACC has experienced no losses; nonetheless, it still carries a loan loss reserve on its balance sheet of approximately 1.91% of investments to cover losses. Additional loan loss reserve is essential as ACC expands to advance its mission, to attract additional loan capital, and to be well-positioned to address any losses in the future as it continues to grow.

Development Services

ACC is creating a training and technical assistance program to expand the development services it offers to its members by building their capacity to access new sources of capital, improve and expand their loan programs, and strengthen their financial, technical, and organizational abilities to better meet the needs of the small business owners and entrepreneurs in their communities. Grants would be used to expand this program's peer-to-peer exchanges, develop leadership opportunities for mid-level managers, and provide coaching and mentoring opportunities for CDFI CEOs.

Additional Staff

At present, ACC has one full-time employee, the CEO. Backroom support is provided by Virginia Community Capital, a CDFI bank. ACC's goal is to expand its current contracting pool consisting of three underwritters, a Senior VP-Finance, and a grant writer. Also hiring an additional full-time staff person in 2021 and having enough funds to support this position over the next 5 years will enable the CEO to fully concentrate on raising capital, nurturing investor relationships, and speaking to a variety of audiences about the investment opportunities available in Appalachia.

Tantrum Brewery

FINANCIAL SUMMARY — *FY2017 to FY2020*

Appalachian Community Capital	FY2017	FY2018	FY2019	FY2020
Financial Performance Tables	**Audited**	**Audited**	**Audited**	**Audited**
Income Statement Summary				
Total Revenues (Unrestricted)	$720,564	$1,108,336	$1,196,088	$1,538,263
Total Expenses	$575,458	$866,019	$979,818	$1,256,978
Net Income w/o Capital Grants	$145,106	$242,317	$216,270	$281,285
Net Interest Income				
Total Interest Income	$346,075	$472,407	$643,761	$581,653
Total Interest Expense	$261,621	$386,200	$478,475	$378,492
Net Provision for Loan Losses	$(5,160)	$11,210	$14,779	$2,408
Net Interest Income	$89,614	$109,330	$165,286	$200,753
Operating Grants	$374,239	$612,806	$552,327	$949,110
Unrestricted Cash				
Net Increase (Decrease) in Unrestricted Cash	$229,539	$798,379	$(653,668)	$1,283,550
Unrestricted Cash (beginning of period)	$196,862	$426,401	$1,224,780	$571,112
Unrestricted Cash (end of period)	$426,401	$1,224,780	$571,112	$1,854,662
Balance Sheet Summary				
Cash & investments (incl. Restricted)	$1,797,228	$2,615,160	$1,656,965	$3,054,662
Notes & loans receivable (gross)	$13,200,000	$15,868,172	$18,252,850	$18,462,937
Notes payable (Senior)	$12,000,000	$14,835,000	$16,000,000	$17,300,000
Unrestricted Net Assets	$200,500	$651,956	$868,227	$1,086,437
Capital Grants	$150,000	$-	$-	$-
Temporarily Restricted Net Assets	$3,151,370	$2,987,000	$2,987,000	$2,987,000
Key Ratios				
Net Assets/Total Assets > 16%	23%	19%	18%	18%
Cash Coverage > 100%	163%	317%	119%	490%
Self-Sufficiency Ratio > 85%	60%	55%	66%	46%
Quick Ratio	9.8	14.3	15.1	15.5
Current Ratio	1.8	8.2	16.1	16.0
Months of Unrestricted Cash	8.9	32.8	21.0	29.0

Audited financial statements will be provided upon request. Also, In light of COVID-19, ACC is re-evaluating its financial projections for 2021-2023 to determine whether it will need to adjust its strategic goals for this period.

Appalachian Community Capital
Balance Sheet For the Periods Ending

	12/31/2020
	Actual
Assets	
Operating Cash	3,054,662
Restricted Cash	591,771
Cash Funded Loan Reserves	150,000
Loans	18,462,937
Loan Loss Reserves	(203,237)
Loans Net	**18,259,700**
Premises & Equipment	786
Grants Receivable	20,300
Accrued Interest	38,155
Other Assets	29,597
Total Assets	**22,144,971**
Liabilities	
Borrowings	17,300,00
Deferred Revenue	690,716
Accrued Interest	42,492
Other Liabilities	38,326
Total Liabilities	**18,071,534**
Capital	
Restricted Capital	2,987,000
Unrestricted Capital	805,152
Net Income	281,285
Total Capital	**4,073,437**
Total Liabilities and Capital	**22,144,971**

Appalachian Community Capital
Statements of Operations
For the Periods Ending

	12/31/2020	YTD 2020
	Actual	Actual
Interest Income		
Loan Interest & Fees	45,867	574,709
Investment Income	594	6,944
Total Interest Income	46,461	581,653
Interest Expense		
Borrowing Expense	34,312	378,492
Total Interest Expense	**34,312**	**378,492**
Net Interest Income	**12,149**	**203,161**
Provision for Loan Loss	(213)	2,408
Net Interest Income After Provision	**12,362**	**200,753**
Non-Interest Income		
Grants/ Donations - Restricted Funding	-	3,569,825
Grants/ Donations - Unrestricted Funding	250,618	949,110
Other Non-Interest Income	7,500	7,500
Total Non-Interest Income	**258,118**	**4,526,435**
Non-Interest Expense		
Salaries and Benefits	13,527	197,792
Occupancy & Equipment	63	920
Data Processing Expense	3,792	45,500
Advertising & Marketing	-	5,000
Audit	2,021	24,432
Legal Fees	2,302	9,025
Consulting & Advisory	117,439	535,873
Other Non-Interest Expenses	4,959	3,637,361
Total Non-Interest Expense	**144,103**	**4,445,903**
Net Income	**126,377**	**281,285**