



Combined Financial Statements

Root Capital, Inc.

December 31, 2020 and 2019



ROOT CAPITAL, INC.
Combined Financial Statements

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Independent Auditors' Report

Board of Directors
Root Capital, Inc.
Cambridge, Massachusetts

We have audited the accompanying combined financial statements of Root Capital, Inc. ("Root Capital"), which comprise the combined statements of financial position as of December 31, 2020 and 2019, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Root Capital as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffmann McCann P.C.

April 26, 2021
Boston, Massachusetts

ROOT CAPITAL, INC.

Combined Statements of Financial Position

December 31,

	2020	2019
Assets		
Cash and cash equivalents	\$ 32,300,204	\$ 37,521,374
Escrow funds held for others	961,368	2,827,678
Short-term investment	225,928	270,411
Loans receivable, net	39,456,780	40,150,842
Collateral dependent impaired loans receivable, net	934,421	2,175,568
Interest receivable, net	461,182	489,016
Grants and pledges receivable, net	8,139,773	13,494,601
Guarantees receivable	99,999	628,396
Prepaid expenses and other assets	434,157	505,869
Property, equipment and leasehold improvements, net	678,820	905,520
Security deposits	308,700	301,917
	\$ 84,001,332	\$ 99,271,192
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,046,255	\$ 1,048,637
Notes payable	44,510,405	55,697,968
Subordinated debt	7,059,230	9,552,862
Accrued interest payable	568,952	751,094
Escrow funds held for others	961,368	2,827,678
Fair value of foreign currency hedges	267,142	23,910
Other liabilities	560,941	83,205
	54,974,293	69,985,354
Total liabilities		
Net assets:		
Without donor restrictions	15,530,359	14,647,481
With donor restrictions	13,496,680	14,638,357
	29,027,039	29,285,838
Total net assets	29,027,039	29,285,838
Total liabilities and net assets	\$ 84,001,332	\$ 99,271,192

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2020
(with comparative totals for 2019)

	<u>2020</u>			<u>2019</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
Operating revenue:				
Earned revenue:				
Loan interest	\$ 4,077,907	\$ -	\$ 4,077,907	\$ 3,820,758
Loan fees	1,120,978	-	1,120,978	1,417,057
Provision for loan loss	(2,591,227)	-	(2,591,227)	(2,438,774)
Foreign currency translation	(252,723)	-	(252,723)	19,704
Other revenue	466,596	-	466,596	2,232
Net earned operating revenue	2,821,531	-	2,821,531	2,820,977
Financial revenue (expense):				
Interest and investment return	116,302	-	116,302	373,034
Interest expense	(1,365,846)	-	(1,365,846)	(1,606,665)
Net financial expense	(1,249,544)	-	(1,249,544)	(1,233,631)
Net earned and financial revenue	1,571,987	-	1,571,987	1,587,346
Contributions and grants	4,917,514	9,770,635	14,688,149	21,446,858
In-kind contributions	234,873	-	234,873	172,026
Net assets released from donor restrictions	10,912,312	(10,912,312)	-	-
Total operating revenue	17,636,686	(1,141,677)	16,495,009	23,206,230
Operating expenses:				
Program services:				
Finance	6,122,038	-	6,122,038	6,070,259
Advise	5,051,546	-	5,051,546	4,801,775
Catalyze	644,630	-	644,630	758,913
Total program services	11,818,214	-	11,818,214	11,630,947
Supporting services:				
Management and general	4,259,536	-	4,259,536	3,582,411
Fundraising	676,058	-	676,058	579,908
Total supporting services	4,935,594	-	4,935,594	4,162,319
Total operating expenses	16,753,808	-	16,753,808	15,793,266
Change in net assets	882,878	(1,141,677)	(258,799)	7,412,964
Net assets at beginning of year, as previously stated	14,647,481	14,638,357	29,285,838	15,718,807
Cumulative impact of change in accounting principles	-	-	-	6,154,067
Net assets at beginning of year, restated	14,647,481	14,638,357	29,285,838	21,872,874
Net assets at end of year	\$ 15,530,359	\$ 13,496,680	\$ 29,027,039	\$ 29,285,838

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2019

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating revenue:			
Earned revenue:			
Loan interest	\$ 3,820,758	\$ -	\$ 3,820,758
Loan fees	1,417,057	-	1,417,057
Fee-for-service revenue	-	-	-
Foreign currency translation	19,704	-	19,704
Other revenue	2,232	-	2,232
	<hr/>	<hr/>	<hr/>
Net earned operating revenue	2,820,977	-	2,820,977
Financial revenue (expense):			
Interest and investment income	373,034	-	373,034
Interest expense	(1,606,665)	-	(1,606,665)
	<hr/>	<hr/>	<hr/>
Net financial expense	(1,233,631)	-	(1,233,631)
Net earned and financial revenue	1,587,346	-	1,587,346
Contributions and grants	7,023,778	14,423,080	21,446,858
In-kind contributions	172,026	-	172,026
Net assets released from donor restrictions	10,523,595	(10,523,595)	-
	<hr/>	<hr/>	<hr/>
Total operating revenue	19,306,745	3,899,485	23,206,230
Operating expenses:			
Program services:			
Finance	6,070,259	-	6,070,259
Advise	4,801,775	-	4,801,775
Catalyze	758,913	-	758,913
	<hr/>	<hr/>	<hr/>
Total program services	11,630,947	-	11,630,947
Supporting services:			
Management and general	3,582,411	-	3,582,411
Fundraising	579,908	-	579,908
	<hr/>	<hr/>	<hr/>
Total supporting services	4,162,319	-	4,162,319
Total operating expenses	15,793,266	-	15,793,266
Change in net assets	<hr/> 3,513,479	<hr/> 3,899,485	<hr/> 7,412,964
Net assets at beginning of year	11,134,002	4,584,805	15,718,807
Cumulative impact of change in accounting principles	-	6,154,067	6,154,067
Net Assets at beginning of year, restated	<hr/> 11,134,002	<hr/> 10,738,872	<hr/> 21,872,874
Net assets at end of year	<hr/> \$ 14,647,481	<hr/> \$ 14,638,357	<hr/> \$ 29,285,838

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2020
(with comparative totals for 2019)

	2020							2019	
	Program Services				Supporting Services			Total	Total
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Personnel	\$ 4,085,310	\$ 1,474,092	\$ 459,968	\$ 6,019,370	\$ 3,023,871	\$ 437,493	\$ 3,461,364	\$ 9,480,734	\$ 8,525,593
Professional services	809,840	1,347,145	88,647	2,245,632	375,592	177,450	553,042	2,798,674	2,952,053
Travel, conferences, and workshops	125,278	201,220	10,246	336,744	37,806	5,711	43,517	380,261	1,771,873
Occupancy and telecommunications	674,353	150,369	47,476	872,198	310,710	43,635	354,345	1,226,543	1,171,988
Other direct costs	427,257	1,878,720	38,293	2,344,270	511,557	11,769	523,326	2,867,596	1,371,759
Total	\$ 6,122,038	\$ 5,051,546	\$ 644,630	\$ 11,818,214	\$ 4,259,536	\$ 676,058	\$ 4,935,594	\$ 16,753,808	\$ 15,793,266

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2019

	<i>Program Services</i>			<i>Total Program Services</i>	<i>Supporting Services</i>		<i>Total Supporting Services</i>	<i>Total</i>
	<i>Finance</i>	<i>Advise</i>	<i>Catalyze</i>		<i>Management and General</i>	<i>Fundraising</i>		
Personnel	\$ 3,831,787	\$ 1,400,277	\$ 427,273	\$ 5,659,337	\$ 2,414,782	\$ 451,474	\$ 2,866,256	\$ 8,525,593
Professional services	680,552	1,701,141	144,407	2,526,100	399,197	26,756	425,953	2,952,053
Travel, conferences, and workshops	407,429	1,124,601	56,910	1,588,940	138,075	44,858	182,933	1,771,873
Occupancy and telecommunications	645,948	163,221	54,074	863,243	266,439	42,306	308,745	1,171,988
Other direct costs	504,543	412,535	76,249	993,327	363,918	14,514	378,432	1,371,759
Total	\$ 6,070,259	\$ 4,801,775	\$ 758,913	\$ 11,630,947	\$ 3,582,411	\$ 579,908	\$ 4,162,319	\$ 15,793,266

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statements of Cash Flows

Years Ended December 31,

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (258,799)	\$ 7,412,964
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	275,750	288,246
Provision for loan loss	2,591,227	2,438,774
Provision for interest loss	310,162	374,911
(Gain) loss on sale of investments	44,483	(11,549)
Rent abatement liability	22,266	12,763
Present value discount on grants and pledges	(89,001)	81,236
Foreign currency translation	252,723	(19,672)
Contributions converted from debt	(2,700,000)	-
(Increase) decrease in:		
Interest receivable	(282,329)	92,970
Grants and pledges receivable	5,443,829	(4,333,709)
Guarantees receivable	528,397	2,371,586
Prepaid expenses and other assets	71,712	75,572
Security deposits	(6,783)	(39,446)
Increase (decrease) in:		
Accounts payable and accrued expenses	548,021	65,391
Other liabilities	5,068	(2,508,613)
	6,756,726	6,301,424
Net cash provided by operating activities	6,756,726	6,301,424
Cash flows from investing activities:		
Purchase of property, equipment, and leasehold improvements	(49,050)	(52,491)
Payments on loans receivable	114,810,521	118,475,610
Issuance of loans receivable	(115,658,172)	(121,028,021)
	(896,701)	(2,604,902)
Net cash used in investing activities	(896,701)	(2,604,902)
Cash flows from financing activities:		
Principal payments on notes payable	(17,771,195)	(10,749,331)
Proceeds from issuance of notes payable	6,690,000	5,308,500
	(11,081,195)	(5,440,831)
Net cash used in financing activities	(11,081,195)	(5,440,831)
Net decrease in cash and cash equivalents	(5,221,170)	(1,744,309)
Cash and cash equivalents at the beginning of the year	37,521,374	39,265,683
Cash and cash equivalents at the end of the year	\$ 32,300,204	\$ 37,521,374

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 1 - Nature of Operations and Basis of Organization

Nature of Operations

Root Capital, Inc. (“Root Capital”) is a Massachusetts based non-profit, social investment organization that grows rural prosperity in poor, environmentally vulnerable communities in Africa, Latin America and Southeast Asia by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses. Root Capital operates the following programs:

Finance: Root Capital provides loans and lines of credit generally in amounts ranging from \$50,000 to \$4 million to small and growing businesses that source from small-holder farmers, with a particular focus on those businesses that are currently not reached by commercial lenders. Most of Root Capital's loans have tenors of one – three years and are used for working capital to finance the cost of purchasing and processing raw material sourced from small-holder farmers. From time to time, term loans with maximum tenors of seven years are provided in connection with the working capital financing to finance certain fixed asset purchases and investments, including equipment, infrastructure improvements, and agricultural inputs.

Advise: This program provides targeted financial management training to current and prospective clients so they have the financial management skills they need to grow and sustain their businesses. This program prepares small and growing businesses with growth potential to qualify for credit and to mitigate the risk of lending to these businesses.

Catalyze: Root Capital seeks to catalyze a thriving financial market to support historically underserved rural small and growing businesses. The program’s strategy is to:

- Innovate - conduct research and development, study impact at the household and business levels, and look for ways to increase impact.
- Accelerate - share learning from work with like-minded peers to build common standards and practices necessary for the industry to thrive and scale.

Root Capital combines its financial results with Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural (“ACCDER”), based in Lima, Peru, Root Capital, Mexico A.C., a non-profit civil association that has received tax exempt recognition from Mexican tax authorities, and Root Capital Guatemala A.C., as a civil association which was dissolved in April 2019. Root Capital also has field offices in Costa Rica, Senegal, and Kenya.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying combined financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated in combination.

Cash and Cash Equivalents

Root Capital considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost plus accrued interest. Root Capital maintains cash balances at financial institutions which exceed federally insured limits. Root Capital monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Root Capital has modest amounts on deposit in foreign banks in both dollar and local currencies. As of December 31, 2020 and 2019, there was approximately \$3,000,000 and \$3,300,000, respectively, of restricted cash included in cash and cash equivalents.

Escrow Funds

As a condition of certain tripartite lending agreements and servicing agreements, Root Capital holds in escrow short-term funds in accordance with the terms of these agreements.

Short-term Investment

The short-term investment consists of a mutual fund that invests primarily in money market instruments and short-term fixed income securities with such amounts being recorded at fair value using Level 1 methods as per the fair value policies outlined later in this section.

Loans Receivable and Allowance for Loan Losses (Including Collateral Dependent Impaired Loans Receivable)

Loans receivable are presented at cost net of an allowance for loan losses. The allowance for loan losses is an estimate of expected losses of loan principal due to borrower non-performance and is determined under Root Capital's allowance for loan losses policy. All outstanding loans are risk-rated on a regular basis, based on performance factors related to compliance with covenants and reporting requirements, production, management, buyers and other factors. A risk rating score combined with a financial review and delinquency level are used to systematically classify the risk level of each loan. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Root Capital making such funds beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Root Capital does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Grants and Pledges Receivable

Grants and pledges receivable represent amounts due from donors. For amounts expected to be collected in more than one year, such amounts are stated at their net present value using a risk adjusted discount rate when such grants and pledges are made which is considered a non-recurring Level 2 fair value measurement method as per the fair value policies outlined later in this section. Management considers all amounts to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established.

Conditional grants are not recognized until the conditions are substantially met. Any assets contributed before the related conditions have been substantially met are accounted for as a liability on the combined statements of financial position.

Property, Equipment and Leasehold Improvements

Root Capital capitalizes assets at cost when they have a useful life of greater than one year and they have a cost of \$5,000 or more. Depreciation is calculated on the straight-line basis over the estimated useful lives of the related assets which is generally three to five years (certain software) and five years (furniture and equipment). Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Paycheck Protection Loan

Root Capital received funding under the Paycheck Protection Loan as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. Such amounts have been accounted for as grant revenue given that eligible costs have been incurred which allow these amounts to be considered as having met the barriers to recognition. As such, the amounts pending forgiveness have not been reflected as an obligation in the combined financial statements.

Lease Obligations

Lease expenses are recorded on the straight-line basis over the lease term with any difference being accounted for as an obligation.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes

Root Capital is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, is generally exempt from Federal and state income taxes. Accordingly, no provision for income taxes is made in the combined financial statements.

Root Capital has determined that its status as a tax exempt entity and its determinations as to its income being related and unrelated are not uncertain tax positions within the meaning of generally accepted accounting principles for its open tax years. Root Capital's Federal and state income tax returns are generally open for examination for three years following the date filed.

Net Asset Classification

Net assets are reported as follows:

Without donor restrictions are those net resources that bear no donor restrictions. Also included in net assets without donor restrictions is the net investment in property, equipment and leasehold improvements.

With donor restrictions net assets are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure.

Revenue Recognition

Contributions and grants with donor restrictions and without donor restrictions are recorded as revenue in the year that a verifiable commitment is made from the donor if such amounts are unconditional. Certain grants have conditions and thus revenue is recognized only upon meeting the required barrier to recognition. For example, federal guarantees are recorded as revenue when Root Capital has a right to make a request for reimbursement under the program. To the extent that contributions and grants are with donor restrictions, such amounts are reflected as released from restriction when the purpose restriction has been met, when the passage of time has occurred or both. Donor intentions are not recorded as revenue until the earlier of it becoming a commitment or when such amounts are received.

Revenue from loan interest is recognized as accrued and earned based on the interest rates and unpaid principal balances in the respective agreements unless the underlying loan is in nonaccrual status.

Loan fees are recognized as earned which is generally over the term of the related loan.

In-kind contributions consist primarily of legal services which are recorded at fair value as the services are provided with a corresponding charge to operating expenses.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

Revenue is presented following the standards used by financial institutions. Operating expenses include direct program expenses and supporting services expenses as reported on the combined statements of functional expenses.

Foreign currency transactions are translated monthly using average exchange rates for the period. Foreign currency translation adjustments are recorded at year end using the exchange rate as published in public data sources. Currency hedges are likewise measured at year end which would be considered a Level 2 fair value measurement as per the fair value policies elsewhere in this section.

Fair Value Measurements

Root Capital reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include short-term investments and currency swaps. Non-recurring fair value measures include grants and pledges receivable. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value standards require Root Capital to categorize financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique as follows:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities that are publicly traded on an exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that different assumptions or changes in values of these instruments could occur which could materially affect amounts reported in these combined financial statements.

Use of Estimates

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Each functional classification includes all expenses related to the underlying operations by natural classification. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques. Certain costs for occupancy and telecommunications costs including rent, maintenance and utilities are allocated based on headcount. Certain costs of the communications department and the information technology department are allocated based on estimates of time and effort.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to confirm with the current year presentation.

Pending Accounting Pronouncements

Several new accounting pronouncements are pending in future years. Management is currently evaluating the impact of these standards.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 3 - Loans Receivable and Collateral Dependent Impaired Loans Receivable

Following is a summary of Root Capital's loans receivable and collateral dependent impaired loans receivable as of December 31:

	2020			
	Number of Loans	Outstanding Principal	Loan Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	115	\$ 42,728,687	\$ 3,271,907	\$ 39,456,780
Collateral dependent impaired loans receivable	3	1,889,590	955,169	934,421
Total loans receivable	118	\$ 44,618,277	\$ 4,227,076	\$ 40,391,201
	2019			
	Number of Loans	Outstanding Principal	Loan Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	116	\$ 47,356,067	\$ 7,205,225	\$ 40,150,842
Collateral dependent impaired loans receivable	14	6,147,232	3,971,663	2,175,569
Total loans receivable	130	\$ 53,503,299	\$ 11,176,888	\$ 42,326,411

The five largest outstanding loans receivable were 23% and 26% of the portfolio as of December 31, 2020 and 2019, respectively.

Scheduled repayments of loans receivable are as follows at December 31, 2020:

Year Ending December 31,

2021	\$ 43,409,673
2022	757,380
2023	375,166
	<u>44,542,219</u>
Less: allowance for loan losses	(4,227,076)
Deferred loan origination costs, net of origination fees	<u>76,058</u>
Net loan receivable	<u>\$ 40,391,201</u>

Most loans receivable are denominated in United States dollars with approximately 10% and 1% of loan amounts being in various other currencies at December 31, 2020 and 2019, respectively.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 3 - Loans Receivable and Collateral Dependent Impaired Loans Receivable (Continued)

Guarantee Agreements

Root Capital has various loan guarantee agreements in place which are summarized below:

<i>Guarantor and Facility</i>	<i>Amount of Obligation</i>	<i>Term of Coverage</i>	<i>Outstanding Loan Balances</i>	<i>Claims in 2020</i>	<i>Claims in 2019</i>
USAID Development Credit Authority 50% Maximum Guarantee Facility (40% for loans approved after 9/30/2011) for SME Agribusiness in Select LA/African Countries	Maximum obligations of \$5,542,500	Through March 2020	\$ -	\$ -	\$ 227,010
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of \$6,250,000	Through September 2019	-	683,747	1,867,581
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	585,345	-	550,000
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of \$5,542,500	Through June 2025	689,823	-	-
United States International Development Finance Corporation ("DFC") Loan Portfolio Guarantee	Maximum obligations of \$35,000,000	Through September 2027	14,995,871	-	-

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately \$30,067,000 and \$7,179,000 for the years ended December 31, 2020 and 2019, respectively. Management estimates the amounts it will recover under these programs as an integral part of its loan loss estimating process, but such amounts cannot be recovered under these programs until the loss is incurred.

Loan Participation

Root Capital enters into loan participation agreements with third parties who wish to enter the impact investing space. Root Capital services the participating interests acquired by those third parties for an agreed upon servicing fee. Total loan participation sales were \$0 for the years ended December 31, 2020 and 2019.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses

Impaired Loans

A loan is considered impaired when, based on current information and events, it is likely that Root Capital will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans are considered non-current 30 days after a missed payment that remains unpaid or as otherwise determined by performance indicators other than delinquency.

Borrower performance is monitored on a regular basis by Root Capital, based on financial and other information that may be required from borrowers. In some instances, third party contractors provide the required reporting. At a minimum, all loans are risk rated every two months, or as soon as monitoring information indicates the need to change a rating. Loans classified as non-current (Special Mention, Substandard, and Doubtful) are monitored more closely with increased attention from senior staff.

Root Capital's delinquency classification methodology is based on days late which is summarized as follows:

<i>Loan Type</i>	<i>Special Mention</i>	<i>Substandard</i>	<i>Doubtful</i>	<i>Written Off</i>
Loans with payments due in full at maturity	30	90	180	270
Loans with amortization schedules or scheduled interest	30	90	270	360
Restructured loans	30	90	180	270

Non-Accrual and Write-off

Loans classified as Substandard or Doubtful are automatically placed on non-accrual status from the first day of the month following the month they are downgraded. Authorized senior lending staff may also place other loans on non-accrual status as deemed appropriate on a per-loan basis.

Non-accrual status does not change the contractual obligations of the borrower to pay amounts outstanding plus interest; however, Root Capital does stop recording interest income for financial reporting purposes when non-accrual status occurs. Accrual status for a particular borrower's loans resumes if the borrower is upgraded to a risk classification of Special Mention or better based on satisfactory performance under modified loan terms and receipt of at least one scheduled payment.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses

The allowance for loan loss policy groups loans in pools based on shared characteristics. The allowance for loan loss rates are reviewed and updated periodically. In 2020, the allowance rates for loans other than Large Secured and Impaired loans were updated with loans secured with collateral or not secured with collateral being reserved using the same rate giving data indicating that the same rates are appropriate. Previously, the allowance rates differentiated between loans secured or unsecured. The probable loss for loans in the Large, Secured, Impaired pool and loans that are collateral dependent is calculated at the individual loan level, based on collateral value. No allowance is recorded for loans in the Large, Secured, Impaired pool if collateral values for those loans exceed the outstanding principal balance. The probable loss for all other impaired loans is calculated using historical loss rates. In considering the allowance for loan losses, Root Capital includes only hard collateral, which consists of real estate, equipment and machinery. Although Root Capital obtains other types of collateral such as inventory and trade receivables, those types of collateral are generally more difficult to track and assign value, therefore management has excluded them from the calculation of the allowance for loan losses.

The allowance for loan losses is calculated using various factors that consider probable loss, recoveries, and impact of guarantees, where applicable. The probable loss is calculated by combining the analysis of the likelihood that loans will end up in default and the total credit exposure at the time of default. The recovery rate reflects the expected recoveries on loans. The liquid guarantee rate reflects the actual guarantees on the loans as a percentage of the outstanding balance. For all current loans, the probable loss rate uses a forward looking analysis that estimates the expected loss at the time of underwriting. For impaired loans, the probable loss rate uses the historical loss experience to determine the expected loss.

The following rates were effective as of December 31, 2020 (shown prior to the application of guarantees):

<i>Loan Pool</i>	<i>Allowance Rate Secured and Unsecured</i>
Current	3%
Large, secured, impaired	
Current restructure	0% to 16%
Special mention	0% to 50%
Substandard	0% to 83%
Doubtful	0% to 89%
Other impaired	
Current restructure	19%
Special mention	40%
Substandard	60%
Doubtful	66%
Collateral dependent	Based on collateral value

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

The following rates were effective as of December 31, 2019 (shown prior to the application of guarantees):

<i>Loan Pool</i>	<i>Allowance Rate Secured</i>	<i>Unsecured</i>
Current	1.8%	2.4%
Large, secured, impaired		
Current restructure	0% to 16%	N/A
Special mention	0% to 50%	N/A
Substandard	0% to 83%	N/A
Doubtful	0% to 89%	N/A
Other impaired		
Current restructure	11%	14%
Special mention	35%	46%
Substandard	57%	75%
Doubtful	62%	81%
Collateral dependent	Based on collateral value	N/A

The activity within the allowance for loan losses consisted of the following for the years ended December 31:

	2020	2019
Balance, beginning of year	\$ 11,176,888	\$ 10,144,079
Write-offs	(10,468,038)	(2,628,770)
Recoveries	926,999	1,222,805
Provision for loan losses	<u>2,591,227</u>	<u>2,438,774</u>
Balance, end of year	<u>\$ 4,227,076</u>	<u>\$ 11,176,888</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

Summary of loan risk composition as of December 31:

	2020			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Percent of Provision
Current	\$ 32,558,910	73 %	\$ 668,512	16 %
Current restructured	3,788,515	8	486,473	11
Special mention	4,875,383	11	1,341,815	32
Substandard	1,214,347	3	581,646	14
Doubtful	291,532	1	193,461	4
Collateral dependent	1,889,590	4	955,169	23
Total	<u>\$ 44,618,277</u>	<u>100 %</u>	<u>\$ 4,227,076</u>	<u>100 %</u>

	2019			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Percent of Provision
Current	\$ 33,266,080	63 %	\$ 745,257	7 %
Current restructured	2,695,370	5	188,540	2
Special mention	4,828,847	9	1,942,127	17
Substandard	5,960,168	11	4,157,370	37
Doubtful	211,202	0	171,931	2
Collateral dependent	6,147,232	12	3,971,663	35
Total	<u>\$ 53,108,899</u>	<u>100 %</u>	<u>\$ 11,176,888</u>	<u>100 %</u>

Loans are written off when it is determined that the likelihood and/or timing of repayment are highly uncertain.

Restructured Loans

A loan restructure is a modification to loan terms that results from the borrower's inability to perform under its existing loan terms due to a business weakness that is not temporary (more than 90 days).

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses (Continued)

Restructured Loans (Continued)

The table below shows restructured loan balances and related allowance as of December 31. For the purposes of calculating the allowance for loan losses, loans that are in the process of being restructured are also included in the total restructured loans:

2020 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Current	\$ 3,788,515	55 %	\$ 486,473
Special mention	487,505	7	196,316
Substandard	711,750	10	397,031
Doubtful	-	0	-
Collateral dependent	1,889,590	28	955,169
Total	\$ 6,877,360	100 %	\$ 2,034,989

2019 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Current	\$ 2,695,370	23 %	\$ 188,539
Special mention	597,866	5	233,496
Substandard	4,957,661	43	3,663,581
Doubtful	119,836	1	97,554
Collateral dependent	3,176,455	28	2,061,296
Total	\$ 11,547,188	100 %	\$ 6,244,466

Guarantees and Recoveries

As previously disclosed in Note 3, certain loans issued by Root Capital are guaranteed fully or partially by third parties such as The United States International Development Finance Corporation (“DFC”) formally USAID’s Development Credit Authority. A guarantee receivable is established upon write-off of the guaranteed loan. Amounts that are expected to be recovered under these programs, but are not yet recoverable under guarantee arrangements, are estimated and offset against the allowance for loan losses. Other recoveries that are not related to guarantees are recognized as they become known which is generally when cash is received. All recoveries are presented as a reduction to gross write-offs.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Loan Losses (Continued)

Guarantees and Recoveries (Continued)

The following is a breakdown of total recoveries recognized as of December 31:

	2020	2019
Recoveries:		
DFC Guarantees	\$ 155,351	\$ 263,442
Other	<u>771,958</u>	<u>1,552,439</u>
Total	<u>\$ 927,309</u>	<u>\$ 1,815,881</u>

Allowance for Interest Losses

Root Capital also records an allowance for potential losses on interest receivable for all loans through the date that they were placed on non-accrual. Root Capital presents the provisioning expense associated with such allowances against interest revenue on loans in the accompanying combined statements of activities. The balance of the allowance for losses on interest receivable was \$146,168 and \$1,041,224 as of December 31, 2020 and 2019, respectively.

Note 5 - Grants and Pledges Receivable

Grants and pledges receivable were due as follows at December 31:

	2020	2019
One year or less	\$ 4,950,265	\$ 7,950,353
One to five years	<u>3,192,963</u>	<u>5,636,704</u>
Total grants and pledges receivable	8,143,228	13,587,057
Less: discounts	<u>(3,455)</u>	<u>(92,456)</u>
Net grants and pledges receivable	<u>\$ 8,139,773</u>	<u>\$ 13,494,601</u>

Conditional grants excluding amounts under guarantee agreements were \$2,778,382 and \$934,355 at December 31, 2020 and 2019, respectively. The conditions generally relate to milestones that are included in the various grant agreements.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 6 - Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are as follows at December 31:

		2020	2019
Leasehold improvements	5 - 7 Years	\$ 164,951	\$ 117,728
Property and equipment	3 - 5 Years	121,046	123,947
Computer software and hardware	3 - 5 Years	1,296,740	1,307,783
		<u>1,582,737</u>	<u>1,549,458</u>
Less: accumulated depreciation and amortization		<u>903,917</u>	<u>643,938</u>
Property, equipment and leasehold improvements, net		<u>\$ 678,820</u>	<u>\$ 905,520</u>

Depreciation and amortization expense was \$275,750 and \$288,246 in 2020 and 2019, respectively.

Note 7 - Notes Payable, Subordinated Debt and Line of Credit

Notes Payable

Root Capital had 228 and 246 unsecured notes payable as of December 31, 2020 and 2019, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2025.

Subordinated Debt

Root Capital had eleven and ten unsecured notes payable as of December 31, 2020 and 2019, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2030. These notes are subordinate to the notes payable above.

Notes payable and subordinated debt are as follows as of December 31:

Investor	2020	2019
	Outstanding Principal	Outstanding Principal
Corporation	\$ 11,000,000	\$ 11,000,000
Foundation	17,532,289	21,164,123
Government/Multilateral	540,000	10,900,000
Individual	14,438,000	16,876,550
Other	8,059,346	5,310,157
	<u>\$ 51,569,635</u>	<u>\$ 65,250,830</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 7 - Notes Payable, Subordinated Debt and Line of Credit (Continued)

Subordinated Debt (Continued)

Notes are concentrated among a few investors with there being two and three notes that are each greater than 10% of total notes payable in 2020 and 2019, respectively. These investors amounted to \$15,000,000 and \$27,500,000 of the notes outstanding in 2020 and 2019, respectively.

Maturities of notes payable and subordinated debt were as follows at December 31, 2020:

2021	\$ 15,857,405
2022	20,479,500
2023	5,785,000
2024	3,858,500
2025	2,630,000
Thereafter	<u>2,959,230</u>
	<u>\$ 51,569,635</u>

Certain debt agreements contain various covenants that require Root Capital to maintain certain financial ratios and to meet other non-financial matters in order to stay in compliance with the requirements.

Lines of Credit

Root Capital has an unsecured line of credit agreement with a bank in the amount of \$3,000,000. The line of credit expires on September 30, 2021. Interest expense was minor in 2020 and 2019.

Note 8 - Net Assets

Net assets consisted of the following at December 31:

	<u>2020</u>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Investment in property, equipment and leasehold improvements, net	\$ 678,820	\$ -	\$ 678,820
Other net assets	14,851,539	-	14,851,539
Time and purpose restricted	<u>-</u>	<u>13,496,680</u>	<u>13,496,680</u>
Total	<u>\$ 15,530,359</u>	<u>\$ 13,496,680</u>	<u>\$ 29,027,039</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 8 - Net Assets (Continued)

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Investment in property, equipment and leasehold improvements, net	\$ 905,520	\$ -	\$ 905,520
Other net assets	13,741,961	-	13,741,961
Time and purpose restricted	-	14,638,357	14,638,357
	\$ 14,647,481	\$ 14,638,357	\$ 29,285,838

Note 9 - Commitments and Contingencies

COVID-19

Management is currently unable to accurately forecast the future impact resulting from the Coronavirus (COVID-19) pandemic which could impact operations on a forward basis. Based on information available through the date of this report, management has been able to sustain its activities. Should that change in the future, management has the ability to scale its programs as necessary.

Leases

Root Capital leases its principal office space as well as other premises under operating lease agreements that expire through 2025. Certain office space is also leased under short-term arrangements. Root Capital is also responsible for its pro-rata share of operating expenses for its principal office.

The following is a schedule of the future minimum lease payments under all office leases:

2021	\$ 713,931
2022	596,104
2023	139,979
2024	144,277
2025	54,576
	\$ 1,648,867

Rent expense was \$755,838 and \$752,531 for the years ended December 31, 2020 and 2019, respectively.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 9 - Commitments and Contingencies (Continued)

Litigation

In the ordinary course of business, Root Capital is involved in a number of litigation matters. In the opinion of management, these matters will not have a significant effect on the combined financial statements of Root Capital.

Note 10 - Retirement Plan

Root Capital has a qualified defined contribution retirement plan covering all eligible employees which provides for contributions of up to 4% of each participating employee's annual salary. Expenses incurred under this plan amounted to \$154,177 and \$139,349 for the years ended December 31, 2020 and 2019, respectively.

Note 11 - Transactions with Related Parties

Root Capital's notes payable include a member of the board of directors amounting to \$200,000 and \$100,000 at December 31, 2020 and 2019, respectively. Terms are consistent with notes payable to non-related parties.

Note 12 - Paycheck Protection Loan

Root Capital applied for and received a forgivable Paycheck Protection Loan of \$812,910 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. The loan was funded on May 4, 2020. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs among other requirements. Root Capital incurred sufficient costs during the year and accounted for such amounts as earned during the year ended December 31, 2020. A formal request for forgiveness was submitted on February 18, 2021.

Note 13 - Foreign Exchange

Fair Value of Currency Swap

Root Capital uses derivative instruments when practical to manage foreign exchange risk related to loans receivable exposures denominated in foreign currencies. Foreign exchange gains and losses from hedging were generally effective in offsetting losses and gains on underlying exposures. Root Capital monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

Root Capital records the fair value of the net position of the currency swap using Level 2 methods as per the fair value policies as outlined earlier in the footnotes along with the impact of the translation adjustments at the end of each reporting period.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 13 - Foreign Exchange (Continued)

Fair Value of Currency Swap (Continued)

The following table presents the fair value forward contracts as of December 31:

Currency	2020			2019		
	Notional (FX)	Notional (USD)	Fair Value (USD)	Notional (FX)	Notional (USD)	Fair Value (USD)
Euro	€ (2,113,887)	\$ (2,395,429)	\$ (197,146)	€ (4,121,536)	\$ (4,684,918)	\$ (19,500)
Ghanaian Cedi	GHC (5,704,188)	(795,354)	(69,996)	GHC (996,251)	(148,104)	(4,410)
Totals		\$ (3,190,783)	\$ (267,142)	Totals	\$ (4,833,022)	\$ (23,910)

Note 14 - Liquidity and Availability of Resources

Root Capital regularly monitors liquidity required to meet its operating needs and other contractual commitments. When reviewing available resources required to meet its expenditures over a 12-month period, all expenditures are considered related to its ongoing activities.

In addition to the financial assets available to meet expenditures over the next 12 months, Root Capital seeks to operate with a relatively balanced budget and anticipates collecting sufficient revenue to cover expenditures. Root Capital has generated positive operating cash flows for the fiscal years ended December 31, 2020 and 2019.

The following summarizes the financial assets available to meet its expenditures as of December 31:

	2020	2019
Financial assets available within 12 months:		
Cash and cash equivalents	\$ 13,442,799	\$ 13,668,463
Loans receivable, net due in one year or less available for expenditures	39,183,098	33,061,933
Interest receivable, net due in one year or less available for expenditures	461,182	489,016
Grants and pledges receivable, net due in one year or less available for expenditures	<u>4,950,265</u>	<u>7,950,353</u>
Total financial assets available within 12 months	58,037,344	55,169,765
Liquidity resources		
Lines of credit (no balance outstanding as of December 31, 2020 and 2019)	<u>3,000,000</u>	<u>3,000,000</u>
Total financial assets and other liquidity resources	<u>\$ 61,037,344</u>	<u>\$ 58,169,765</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 15 - Subsequent Events

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 26, 2021, the date the combined financial statements were available to be issued.