



# **Combined Financial Statements**

## **Root Capital, Inc.**

**December 31, 2021 and 2020**



**ROOT CAPITAL, INC.**  
***Combined Financial Statements***

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## *Independent Auditors' Report*

Board of Directors  
Root Capital, Inc.  
Cambridge, Massachusetts

### ***Opinion***

We have audited the combined financial statements of Root Capital, Inc. ("Root Capital"), which comprise the combined statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Root Capital as of December 31, 2021 and 2020, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Root Capital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Root Capital's ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.



### ***Auditors' Responsibilities for the Audit of the Combined Financial Statements***

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Root Capital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Root Capital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Maye Hoffman McCann P.C.*

April 14, 2022  
Boston, Massachusetts

# ROOT CAPITAL, INC.

## *Combined Statements of Financial Position*

*December 31,*

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 33,705,449	\$ 32,300,204
Escrow funds held for others	1,889,714	961,368
Short-term investment	225,977	225,928
Loans receivable, net	53,595,627	40,391,201
Fair value of foreign currency hedges	35,465	-
Interest receivable, net	451,057	461,182
Grants and pledges receivable, net	9,669,388	8,139,773
Guarantees receivable	310,029	99,999
Prepaid expenses and other assets	560,385	742,857
Property, equipment and leasehold improvements, net	430,199	678,820
	<b>\$ 100,873,290</b>	<b>\$ 84,001,332</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,312,115	\$ 1,046,255
Notes payable	45,328,862	44,510,405
Subordinated debt	7,595,724	7,059,230
Accrued interest payable	583,713	568,952
Escrow funds held for others	1,889,714	961,368
Fair value of foreign currency hedges	-	267,142
Other liabilities	529,373	560,941
	<b>57,239,501</b>	<b>54,974,293</b>
<b>Total liabilities</b>		
Net assets:		
Without donor restrictions	17,686,180	15,530,359
With donor restrictions	25,947,609	13,496,680
	<b>43,633,789</b>	<b>29,027,039</b>
<b>Total net assets</b>	<b>43,633,789</b>	<b>29,027,039</b>
<b>Total liabilities and net assets</b>	<b>\$ 100,873,290</b>	<b>\$ 84,001,332</b>

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2021  
(with comparative totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenue:				
Earned revenue:				
Loan interest	\$ 4,984,694	\$ -	\$ 4,984,694	\$ 4,077,907
Loan fees	1,397,451	-	1,397,451	1,120,978
Provision for loan loss	(482,333)	-	(482,333)	(2,591,227)
Foreign currency translation	(212,193)	-	(212,193)	(252,723)
Other revenue	-	-	-	466,596
<b>Net earned operating revenue</b>	<b>5,687,619</b>	<b>-</b>	<b>5,687,619</b>	<b>2,821,531</b>
Financial revenue (expense):				
Interest and investment return	39,333	-	39,333	116,302
Interest expense	(994,304)	-	(994,304)	(1,365,846)
Net financial expense	(954,971)	-	(954,971)	(1,249,544)
Net earned and financial revenue	4,732,648	-	4,732,648	1,571,987
Contributions and grants	1,980,349	24,287,252	26,267,601	14,688,149
In-kind contributions	93,203	-	93,203	234,873
Net assets released from donor restrictions	11,836,323	(11,836,323)	-	-
<b>Total operating revenue</b>	<b>18,642,523</b>	<b>12,450,929</b>	<b>31,093,452</b>	<b>16,495,009</b>
Operating expenses:				
Program services:				
Finance	4,896,595	-	4,896,595	6,122,038
Advise	5,541,424	-	5,541,424	5,051,546
Catalyze	517,067	-	517,067	644,630
Total program services	10,955,086	-	10,955,086	11,818,214
Supporting services:				
Management and general	5,085,993	-	5,085,993	4,259,536
Fundraising	445,623	-	445,623	676,058
Total supporting services	5,531,616	-	5,531,616	4,935,594
<b>Total operating expenses</b>	<b>16,486,702</b>	<b>-</b>	<b>16,486,702</b>	<b>16,753,808</b>
<b>Change in net assets</b>	<b>2,155,821</b>	<b>12,450,929</b>	<b>14,606,750</b>	<b>(258,799)</b>
Net assets at beginning of year	15,530,359	13,496,680	29,027,039	29,285,838
<b>Net assets at end of year</b>	<b>\$ 17,686,180</b>	<b>\$ 25,947,609</b>	<b>\$ 43,633,789</b>	<b>\$ 29,027,039</b>

See accompanying notes to the combined financial statements.

**ROOT CAPITAL, INC.**

**Combined Statement of Activities**

**Year Ended December 31, 2020**

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating revenue:			
Earned revenue:			
Loan interest	\$ 4,077,907	\$ -	\$ 4,077,907
Loan fees	1,120,978	-	1,120,978
Provision for loan loss	(2,591,227)	-	(2,591,227)
Foreign currency translation	(252,723)	-	(252,723)
Other revenue	466,596	-	466,596
<b>Net earned operating revenue</b>	<b>2,821,531</b>	<b>-</b>	<b>2,821,531</b>
Financial revenue (expense):			
Interest and investment return	116,302	-	116,302
Interest expense	(1,365,846)	-	(1,365,846)
Net financial expense	(1,249,544)	-	(1,249,544)
Net earned and financial revenue	1,571,987	-	1,571,987
Contributions and grants	4,917,514	9,770,635	14,688,149
In-kind contributions	234,873	-	234,873
Net assets released from donor restrictions	10,912,312	(10,912,312)	-
<b>Total operating revenue</b>	<b>17,636,686</b>	<b>(1,141,677)</b>	<b>16,495,009</b>
Operating expenses:			
Program services:			
Finance	6,122,038	-	6,122,038
Advise	5,051,546	-	5,051,546
Catalyze	644,630	-	644,630
Total program services	11,818,214	-	11,818,214
Supporting services:			
Management and general	4,259,536	-	4,259,536
Fundraising	676,058	-	676,058
Total supporting services	4,935,594	-	4,935,594
<b>Total operating expenses</b>	<b>16,753,808</b>	<b>-</b>	<b>16,753,808</b>
<b>Change in net assets</b>	<b>882,878</b>	<b>(1,141,677)</b>	<b>(258,799)</b>
Net assets at beginning of year	14,647,481	14,638,357	29,285,838
<b>Net assets at end of year</b>	<b>\$ 15,530,359</b>	<b>\$ 13,496,680</b>	<b>\$ 29,027,039</b>

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2021  
(with comparative totals for 2020)

	2021							2020	
	Program Services				Supporting Services			Total	Total
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Personnel	\$ 3,338,000	\$ 1,868,153	\$ 392,915	\$ 5,599,068	\$ 3,441,911	\$ 358,449	\$ 3,800,360	\$ 9,399,428	\$ 9,480,734
Professional services	546,452	1,936,048	82,267	2,564,767	593,870	44,600	638,470	3,203,237	2,798,674
Travel, conferences, and workshops	110,876	385,750	1,170	497,796	16,837	298	17,135	514,931	380,261
Occupancy and telecommunications	535,430	182,423	37,863	755,716	288,324	27,578	315,902	1,071,618	1,226,543
Other direct costs	365,837	1,169,050	2,852	1,537,739	745,051	14,698	759,749	2,297,488	2,867,596
<b>Total</b>	<b>\$ 4,896,595</b>	<b>\$ 5,541,424</b>	<b>\$ 517,067</b>	<b>\$ 10,955,086</b>	<b>\$ 5,085,993</b>	<b>\$ 445,623</b>	<b>\$ 5,531,616</b>	<b>\$ 16,486,702</b>	<b>\$ 16,753,808</b>

See accompanying notes to the combined financial statements.



ROOT CAPITAL, INC.

*Combined Statement of Functional Expenses*

*Year Ended December 31, 2020*

	<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	\$ 4,085,310	\$ 1,474,092	\$ 459,968	\$ 6,019,370	\$ 3,023,871	\$ 437,493	\$ 3,461,364	\$ 9,480,734
Professional services	809,840	1,347,145	88,647	2,245,632	375,592	177,450	553,042	2,798,674
Travel, conferences, and workshops	125,278	201,220	10,246	336,744	37,806	5,711	43,517	380,261
Occupancy and telecommunications	674,353	150,369	47,476	872,198	310,710	43,635	354,345	1,226,543
Other direct costs	427,257	1,878,720	38,293	2,344,270	511,557	11,769	523,326	2,867,596
<b>Total</b>	<b><u>\$ 6,122,038</u></b>	<b><u>\$ 5,051,546</u></b>	<b><u>\$ 644,630</u></b>	<b><u>\$ 11,818,214</u></b>	<b><u>\$ 4,259,536</u></b>	<b><u>\$ 676,058</u></b>	<b><u>\$ 4,935,594</u></b>	<b><u>\$ 16,753,808</u></b>

See accompanying notes to the combined financial statements.

**ROOT CAPITAL, INC.**

**Combined Statements of Cash Flows**

**Years Ended December 31,**

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 14,606,750	\$ (258,799)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	246,573	275,750
Provision for loan loss	482,333	2,591,227
Provision for interest loss	(14,458)	310,162
(Gain) loss on sale of investments	(49)	44,483
Rent abatement liability	60,941	22,266
Present value discount on grants and pledges	23,638	(89,001)
Foreign currency translation	212,193	252,723
Contributions converted from debt	-	(2,700,000)
(Increase) decrease in:		
Interest receivable	24,583	(282,329)
Grants and pledges receivable	(1,553,253)	5,443,829
Guarantees receivable	(210,030)	528,397
Prepaid expenses and other assets	(71,251)	71,712
Security deposits	253,723	(6,783)
Increase (decrease) in:		
Accounts payable and accrued expenses	268,983	548,021
Other liabilities	(92,510)	5,068
	<b>14,238,166</b>	<b>6,756,726</b>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchase of property, equipment and leasehold improvements	(1,075)	(49,050)
Payments on loans receivable	134,089,410	114,810,521
Issuance of loans receivable	(148,276,208)	(115,658,172)
	<b>(14,187,873)</b>	<b>(896,701)</b>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(12,125,048)	(17,771,195)
Proceeds from issuance of notes payable	13,480,000	6,690,000
	<b>1,354,952</b>	<b>(11,081,195)</b>
<b>Net cash provided by (used in) financing activities</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,405,245</b>	<b>(5,221,170)</b>
Cash and cash equivalents at the beginning of the year	32,300,204	37,521,374
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 33,705,449</b>	<b>\$ 32,300,204</b>

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 combines the accounts of its affiliated entities and any reference to Root Capital comprises these entities. These entities include Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural (“ACCDER”), and Root Capital, Mexico A.C. All of these entities were established and are governed under the laws of their respective countries. Root Capital also has field offices in Costa Rica, Senegal, and Kenya.

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.

### ***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.

# ROOT CAPITAL, INC.

## ***Notes to Combined Financial Statements***

### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### ***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. Included in cash and cash equivalents was approximately \$3,000,000 of restricted cash at December 31, 2021 and 2020.

#### ***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.

#### ***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.

# ROOT CAPITAL, INC.

## **Notes to Combined Financial Statements**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### **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 lesser of the life of the asset or the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

#### **Paycheck Protection Loan**

While revenue associated with this program was recorded under the grant accounting model in 2020, legal forgiveness was obtained on July 31, 2021 thereby finalizing the remaining administrative steps required under this program.

#### **Lease Obligations**

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

#### **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.

Root Capital operates on an exempt basis when such treatment is available in its various locations of operation in accordance with local laws. Accordingly, income tax disclosures have been excluded given their limited amounts in the combined financial statements.

#### **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.

# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Revenue Recognition*

##### *Contributions and Grants Revenue*

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 entitlement. 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.

In-kind contributions consist primarily of legal services which are recorded at the estimated amount Root Capital would have paid for their performance. Fair value determination of these contributions is generally a Level 1 measurement depending on the nature of the donated service.

##### *Earned Revenue*

Revenue from loan interest is recognized as earned over the life of the loan on unpaid principal balances based on the interest rates noted 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.

##### *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 investment 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.

# ROOT CAPITAL, INC.

## ***Notes to Combined Financial Statements***

### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### ***Fair Value Measurements (Continued)***

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.

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.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### 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 conform with the current year presentation.

#### Pending Accounting Pronouncements

Several new accounting pronouncements are pending in future years including accounting for leases and measurement of credit losses on financial instruments. Management is currently evaluating the impact of these standards. Other pending accounting standards are expected to have limited impact.

### 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:

	<b>2021</b>			
	<b>Number of Loans</b>	<b>Outstanding Principal</b>	<b>Loan Loss Allowance</b>	<b>Net</b>
Loans receivable (with interest at rates averaging 10% - 11%)	112	\$ 56,434,880	\$ 2,839,253	\$ 53,595,627
Collateral dependent impaired loans receivable	-	-	-	-
<b>Total loans receivable</b>	<b>112</b>	<b>\$ 56,434,880</b>	<b>\$ 2,839,253</b>	<b>\$ 53,595,627</b>
	<b>2020</b>			
	<b>Number of Loans</b>	<b>Outstanding Principal</b>	<b>Loan Loss Allowance</b>	<b>Net</b>
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
<b>Total loans receivable</b>	<b>118</b>	<b>\$ 44,618,277</b>	<b>\$ 4,227,076</b>	<b>\$ 40,391,201</b>



# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

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

Scheduled repayments of loans receivable are as follows at December 31, 2021:

#### Year Ending December 31,

2022	\$ 52,449,052
2023	1,134,039
2024	<u>2,899,259</u>
	56,482,350
Less: allowance for loan losses	(2,839,253)
Deferred loan origination costs, net of origination fees	<u>(47,470)</u>
<b>Net loan receivable</b>	<b><u>\$ 53,595,627</u></b>

Most loans receivable are denominated in United States dollars with modest amounts being in various other currencies at December 31, 2021 and 2020.

#### 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 2021</i>	<i>Claims in 2020</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	\$ -	\$ -	-
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of \$6,250,000	Through September 2019	-	-	683,747
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	288,400	100,000	-
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of \$5,542,500	Through June 2025	1,160,761	-	-
United States International Development Finance Corporation ("DFC") 75% Maximum Loan Portfolio	Maximum obligations of \$35,000,000	Through September 2027	35,332,660	-	-

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

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

#### Guarantee Agreements (Continued)

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately \$13,653,000 and \$30,067,000 for the years ended December 31, 2021 and 2020, 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.

### 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

# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

### **Note 4 - Allowance for Loan Losses (Continued)**

#### ***Non-Accrual***

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 stops 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.

#### ***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 2021, the reserve rate for current loans was updated to reflect the probability of loss for that loan pool. 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 given data indicating that the same rates are appropriate. 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.

# 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, 2021 and 2020 (shown prior to the application of guarantees) for the secured and unsecured loans:

<b>Loan Pool</b>	<b>2021</b>	<b>2020</b>
Current	6%	3%
Large, secured, impaired		
Current restructure	0% to 16%	0% to 16%
Special mention	0% to 50%	0% to 50%
Substandard	0% to 83%	0% to 83%
Doubtful	0% to 89%	0% to 89%
Other impaired		
Current restructure	19%	19%
Special mention	40%	40%
Substandard	60%	60%
Doubtful	66%	66%
Collateral dependent	Based on collateral value	Based on collateral value

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

	<b>2021</b>	<b>2020</b>
Balance, beginning of year	\$ 4,227,076	\$ 11,176,888
Write-offs	(3,491,279)	(10,468,348)
Recoveries	1,621,123	927,309
Provision for loan losses	482,333	2,591,227
<b>Balance, end of year</b>	<b><u>\$ 2,839,253</u></b>	<b><u>\$ 4,227,076</u></b>

# 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:

	<b>2021</b>			
	<b>Outstanding Principal</b>	<b>Percent of Portfolio</b>	<b>Loan Loss Allowance</b>	<b>Percent of Provision</b>
Current	\$ 51,030,863	91 %	\$ 1,617,494	57 %
Current restructured	1,837,424	3	228,113	8
Special mention	1,808,162	3	267,865	9
Substandard	992,567	2	217,552	8
Doubtful	765,864	1	508,229	18
<b>Total</b>	<b>\$ 56,434,880</b>	<b>100 %</b>	<b>\$ 2,839,253</b>	<b>100 %</b>
	<b>2020</b>			
	<b>Outstanding Principal</b>	<b>Percent of Portfolio</b>	<b>Loan Loss Allowance</b>	<b>Percent of Provision</b>
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
<b>Total</b>	<b>\$ 44,618,277</b>	<b>100 %</b>	<b>\$ 4,227,076</b>	<b>100 %</b>

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:

<i>2021 Portfolio</i>	<i>Outstanding Principal</i>	<i>Percent of Portfolio</i>	<i>Allowance for Loan Loss</i>	<i>Percent of Provision</i>
Current	\$ 1,837,424	65 %	\$ 228,113	30 %
Special mention	309,309	11	96,835	13
Substandard	-	0	-	0
Doubtful	664,476	24	440,948	57
Collateral dependent	-	0	-	0
<b>Total</b>	<b>\$ 2,811,209</b>	<b>100 %</b>	<b>\$ 765,896</b>	<b>7030%</b>

<i>2020 Portfolio</i>	<i>Outstanding Principal</i>	<i>Percent of Portfolio</i>	<i>Allowance for Loan Loss</i>	<i>Percent of Provision</i>
Current	\$ 3,788,515	55 %	\$ 486,473	24 %
Special mention	487,505	7	196,316	10
Substandard	711,750	10	397,031	20
Doubtful	-	0	-	0
Collateral dependent	1,889,590	28	955,169	46
<b>Total</b>	<b>\$ 6,877,360</b>	<b>100 %</b>	<b>\$ 2,034,989</b>	<b>100 %</b>

#### 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 thus lower the amount required to be reserved as an 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:

	<b>2021</b>	<b>2020</b>
Recoveries:		
DFC Guarantees	\$ 210,030	\$ 155,351
Other	<u>1,411,093</u>	<u>771,958</u>
<b>Total</b>	<b><u>\$ 1,621,123</u></b>	<b><u>\$ 927,309</u></b>

#### 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 \$100,492 and \$146,168 as of December 31, 2021 and 2020, respectively.

### Note 5 - Grants and Pledges Receivable

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

	<b>2021</b>	<b>2020</b>
One year or less	\$ 5,018,482	\$ 4,950,265
One to five years	<u>4,678,000</u>	<u>3,192,963</u>
Total grants and pledges receivable	9,696,482	8,143,228
Less: discounts	<u>(27,094)</u>	<u>(3,455)</u>
<b>Net grants and pledges receivable</b>	<b><u>\$ 9,669,388</u></b>	<b><u>\$ 8,139,773</u></b>

Conditional grants, excluding amounts under guarantee agreements, were \$3,376,364 and \$2,778,382 at December 31, 2021 and 2020, 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:

		<b>2021</b>	<b>2020</b>
Leasehold improvements	5 - 7 Years	\$ 76,550	\$ 164,951
Property and equipment	3 - 5 Years	27,595	121,046
Computer software and hardware	3 - 5 Years	<u>1,294,139</u>	<u>1,296,740</u>
		1,398,284	1,582,737
Less: accumulated depreciation and amortization		<u>968,085</u>	<u>903,917</u>
<b>Property, equipment and leasehold improvements, net</b>		<b><u>\$ 430,199</u></b>	<b><u>\$ 678,820</u></b>

Depreciation and amortization expense was \$246,573 and \$275,750 in 2021 and 2020, respectively.

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

#### Notes Payable

Root Capital had 225 and 228 unsecured notes payable as of December 31, 2021 and 2020, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2026.

#### Subordinated Debt

Root Capital had eleven unsecured notes payable as of December 31, 2021 and 2020. 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:

<b>Investor</b>	<b><u>2021</u></b> <b><i>Outstanding Principal</i></b>	<b><u>2020</u></b> <b><i>Outstanding Principal</i></b>
Corporation	\$ 8,500,000	\$ 11,000,000
Foundation	26,766,609	17,532,289
Individual	12,367,938	14,438,000
Other	<u>5,290,039</u>	<u>13,459,346</u>
	<b><u>\$ 52,924,586</u></b>	<b><u>\$ 56,429,635</u></b>



# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

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

Notes are concentrated among a few investors with there being one and two notes that are each greater than 10% of total notes payable in 2021 and 2020, respectively. These investors amounted to \$7,500,000 and \$15,000,000 of the notes outstanding in 2021 and 2020, respectively.

Maturities of notes payable and subordinated debt were as follows at December 31, 2021:

2022	\$ 26,774,539
2023	5,680,823
2024	10,888,500
2025	5,630,000
2026	3,820,724
Thereafter	<u>130,000</u>
<b>Net loan receivable</b>	<b><u><u>\$ 52,924,586</u></u></b>

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, 2022. As of December 31, 2021 and 2020, there was no outstanding balance on the line of credit agreement.

Included in cash and cash equivalents was approximately \$3,000,000 of restricted cash related to the line of credit agreement at December 31, 2021 and 2020.

### Note 8 - Net Assets

Net assets consisted of the following at December 31:

	<u>2021</u>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Investment in property, equipment and leasehold improvements, net	\$ 430,199	\$ -	\$ 430,199
Other net assets	17,255,981	-	17,255,981
Time and purpose restricted	-	25,947,609	25,947,609
<b>Total</b>	<b><u><u>\$ 17,686,180</u></u></b>	<b><u><u>\$ 25,947,609</u></u></b>	<b><u><u>\$ 43,633,789</u></u></b>

# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

### *Note 8 - Net Assets (Continued)*

	<i>2020</i>		
	<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	-	13,496,680	13,496,680
	<b><u>\$ 15,530,359</u></b>	<b><u>\$ 13,496,680</u></b>	<b><u>\$ 29,027,039</u></b>

### *Note 9 - Commitments and Contingencies*

#### ***Leases***

Root Capital leases its principal office space as well as other premises under operating lease agreements that expire through 2025. The majority of office space is now leased under short-term arrangements.

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

2022	\$ 181,465
2023	143,106
2024	54,808
2025	45,673
	<b><u>\$ 425,052</u></b>

Rent expense was \$656,361 and \$755,838 for the years ended December 31, 2021 and 2020, respectively.

#### ***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.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 10 - 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.

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

Currency	2021			2020		
	Notional (FX)	Notional (USD)	Fair Value (USD)	Notional (FX)	Notional (USD)	Fair Value (USD)
Euro	€ (1,871,532)	\$ (2,181,911)	\$ 47,933	€ (2,113,887)	\$ (2,395,429)	\$ (197,146)
Ghanaian Cedi	GHC (4,336,571)	(662,010)	(12,468)	GHC (5,704,188)	(795,354)	(69,996)
<b>Totals</b>		<b>\$ (2,843,921)</b>	<b>\$ 35,465</b>	<b>Totals</b>	<b>\$ (3,190,783)</b>	<b>\$ (267,142)</b>

### Note 11 - 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, 2021 and 2020.

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

	2021	2020
Financial assets available within 12 months:		
Cash and cash equivalents	\$ 3,930,909	\$ 13,442,799
Loans receivable, net due in one year or less available for expenditures	49,974,401	39,302,240
Interest receivable, net due in one year or less available for expenditures	451,057	461,182
Grants and pledges receivable, net due in one year or less available for expenditures	<u>5,018,482</u>	<u>4,950,265</u>
Total financial assets available within 12 months	59,374,849	58,156,486
Liquidity resources		
Lines of credit (no balance outstanding as of December 31, 2021 and 2020)	<u>3,000,000</u>	<u>3,000,000</u>
<b>Total financial assets and other liquidity resources</b>	<b><u>\$ 62,374,849</u></b>	<b><u>\$ 61,156,486</u></b>

# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

### ***Note 12 - Subsequent Events***

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 14, 2022, the date the combined financial statements were available to be issued.