



# **Combined Financial Statements**

**Root Capital, Inc.**

**December 31, 2023 and 2022**



**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, 2023 and 2022, 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, 2023 and 2022, 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 audits. 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 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 audit.
- 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.

*Mayer Hoffmann McCann P.C.*

Boston, Massachusetts  
April 24, 2024

# ROOT CAPITAL, INC.

## *Combined Statements of Financial Position*

*December 31,*

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 52,841,436	\$ 47,203,610
Escrow funds held for others	632,445	1,235,918
Short-term investment	21,228,908	20,397,660
Loans receivable, net	29,651,792	43,951,676
Fair value of foreign currency hedges	-	155,250
Interest receivable, net	286,226	318,745
Grants and pledges receivable, net	13,909,677	13,950,011
Guarantees receivable	807,339	1,389,264
Prepaid expenses and other assets	987,211	807,070
Property, equipment and leasehold improvements, net	34,647	216,808
	<b>\$ 120,379,681</b>	<b>\$ 129,626,012</b>
<b>Total assets</b>		
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,948,229	\$ 1,622,682
Notes payable	40,474,856	45,528,132
Subordinated debt	6,762,481	6,752,349
Accrued interest payable	461,256	499,449
Escrow funds held for others	632,445	1,235,918
Fair value of foreign currency hedges	7,911	-
Other liabilities	892,400	853,761
	<b>51,179,578</b>	<b>56,492,291</b>
<b>Total liabilities</b>		
Net assets:		
Without donor restrictions	50,985,887	49,343,064
With donor restrictions	18,214,216	23,790,657
	<b>69,200,103</b>	<b>73,133,721</b>
<b>Total net assets</b>		
	<b>\$ 120,379,681</b>	<b>\$ 129,626,012</b>
<b>Total liabilities and net assets</b>		

**ROOT CAPITAL, INC.**

**Combined Statement of Activities**

**Year Ended December 31, 2023  
(with comparative totals for 2022)**

	2023			2022
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Total</i>
Operating revenue:				
Earned revenue:				
Loan interest	\$ 4,138,983	\$ -	\$ 4,138,983	\$ 5,896,738
Loan fees	1,133,107	-	1,133,107	1,527,607
Provision for loan loss	469,313	-	469,313	669,755
Foreign currency translation	(535,914)	-	(535,914)	(396,666)
Other revenue	122,731	-	122,731	303,998
<b>Net earned operating revenue</b>	<b>5,328,220</b>	<b>-</b>	<b>5,328,220</b>	<b>8,001,432</b>
Financial revenue (expense):				
Interest and investment return	2,374,980	-	2,374,980	433,839
Interest expense	(823,045)	-	(823,045)	(941,079)
Net financial expense	1,551,935	-	1,551,935	(507,240)
Net earned and financial revenue	6,880,155	-	6,880,155	7,494,192
Contributions and grants	2,281,792	14,242,808	16,524,600	41,878,138
Net assets released from donor restrictions	19,819,249	(19,819,249)	-	-
<b>Total operating revenue</b>	<b>28,981,196</b>	<b>(5,576,441)</b>	<b>23,404,755</b>	<b>49,372,330</b>
Operating expenses:				
Program services:				
Finance	7,802,141	-	7,802,141	6,723,276
Advise	8,264,307	-	8,264,307	6,301,299
Catalyze	2,541,055	-	2,541,055	745,504
Total program services	18,607,503	-	18,607,503	13,770,079
Supporting services:				
Management and general	7,897,276	-	7,897,276	5,567,823
Fundraising	833,594	-	833,594	534,496
Total supporting services	8,730,870	-	8,730,870	6,102,319
<b>Total operating expenses</b>	<b>27,338,373</b>	<b>-</b>	<b>27,338,373</b>	<b>19,872,398</b>
<b>Change in net assets</b>	<b>1,642,823</b>	<b>(5,576,441)</b>	<b>(3,933,618)</b>	<b>29,499,932</b>
Net assets at beginning of year	49,343,064	23,790,657	73,133,721	43,633,789
<b>Net assets at end of year</b>	<b>\$ 50,985,887</b>	<b>\$ 18,214,216</b>	<b>\$ 69,200,103</b>	<b>\$ 73,133,721</b>

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2022

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating revenue:			
Earned revenue:			
Loan interest	\$ 5,896,738	\$ -	\$ 5,896,738
Loan fees	1,527,607	-	1,527,607
Provision for loan loss	669,755	-	669,755
Foreign currency translation	(396,666)	-	(396,666)
Other revenue	303,998	-	303,998
	<u>8,001,432</u>	<u>-</u>	<u>8,001,432</u>
<b>Net earned operating revenue</b>			
Financial revenue (expense):			
Interest and investment return	433,839	-	433,839
Interest expense	(941,079)	-	(941,079)
	<u>(507,240)</u>	<u>-</u>	<u>(507,240)</u>
Net financial expense			
	7,494,192	-	7,494,192
Net earned and financial revenue			
Contributions and grants	26,974,022	14,904,116	41,878,138
Net assets released from donor restrictions	17,061,068	(17,061,068)	-
	<u>51,529,282</u>	<u>(2,156,952)</u>	<u>49,372,330</u>
<b>Total operating revenue</b>			
Operating expenses:			
Program services:			
Finance	6,723,276	-	6,723,276
Advise	6,301,299	-	6,301,299
Catalyze	745,504	-	745,504
	<u>13,770,079</u>	<u>-</u>	<u>13,770,079</u>
Total program services			
Supporting services:			
Management and general	5,567,823	-	5,567,823
Fundraising	534,496	-	534,496
	<u>6,102,319</u>	<u>-</u>	<u>6,102,319</u>
Total supporting services			
	<u>19,872,398</u>	<u>-</u>	<u>19,872,398</u>
<b>Total operating expenses</b>			
<b>Change in net assets</b>	<b>31,656,884</b>	<b>(2,156,952)</b>	<b>29,499,932</b>
Net assets at beginning of year	17,686,180	25,947,609	43,633,789
	<u>17,686,180</u>	<u>25,947,609</u>	<u>43,633,789</u>
<b>Net assets at end of year</b>	<b><u>\$ 49,343,064</u></b>	<b><u>\$ 23,790,657</u></b>	<b><u>\$ 73,133,721</u></b>

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2023  
(with comparative totals for 2022)

	2023				2022				
	Program Services			Total Program Services	Supporting Services		Total	Total	
Finance	Advise	Catalyze	Management and General		Fundraising	Total Supporting Services			
Personnel	\$ 5,266,147	\$ 2,661,252	\$ 1,837,808	\$ 9,765,207	\$ 5,512,018	\$ 759,131	\$ 6,271,149	\$ 16,036,356	\$ 11,335,562
Professional services	619,377	2,347,100	458,328	3,424,805	702,034	23,050	725,084	4,149,889	3,464,603
Travel, conferences, and workshops	782,629	1,615,510	168,468	2,566,607	708,130	17,659	725,789	3,292,396	2,021,569
Occupancy and telecommunications	440,626	126,331	45,575	612,532	114,334	12,701	127,035	739,567	602,142
Other direct costs	693,362	1,514,114	30,876	2,238,352	860,760	21,053	881,813	3,120,165	2,448,522
<b>Total</b>	<b>\$ 7,802,141</b>	<b>\$ 8,264,307</b>	<b>\$ 2,541,055</b>	<b>\$ 18,607,503</b>	<b>\$ 7,897,276</b>	<b>\$ 833,594</b>	<b>\$ 8,730,870</b>	<b>\$ 27,338,373</b>	<b>\$ 19,872,398</b>

See accompanying notes to the combined financial statements.



ROOT CAPITAL, INC.

*Combined Statement of Functional Expenses*

*Year Ended December 31, 2022*

	<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	\$ 4,302,421	\$ 1,955,363	\$ 514,345	\$ 6,772,129	\$ 4,068,734	\$ 494,699	\$ 4,563,433	\$ 11,335,562
Professional services	874,030	1,918,759	144,855	2,937,644	512,959	14,000	526,959	3,464,603
Travel, conferences, and workshops	491,615	1,235,544	43,941	1,771,100	237,534	12,935	250,469	2,021,569
Occupancy and telecommunications	406,299	105,185	16,052	527,536	69,117	5,489	74,606	602,142
Other direct costs	648,911	1,086,448	26,311	1,761,670	679,479	7,373	686,852	2,448,522
<b>Total</b>	<b>\$ 6,723,276</b>	<b>\$ 6,301,299</b>	<b>\$ 745,504</b>	<b>\$ 13,770,079</b>	<b>\$ 5,567,823</b>	<b>\$ 534,496</b>	<b>\$ 6,102,319</b>	<b>\$ 19,872,398</b>

See accompanying notes to the combined financial statements.

**ROOT CAPITAL, INC.**  
**Combined Statements of Cash Flows**  
**Years Ended December 31,**

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (3,933,618)	\$ 29,499,932
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	192,739	213,391
Provision for loan loss	(469,313)	(669,755)
Provision for interest loss	61,602	(17,444)
Realized and unrealized gains on investments	(2,799)	(184,813)
Present value discount on grants and pledges	(47,461)	283,705
Foreign currency translation	535,914	396,666
(Increase) decrease in:		
Interest receivable	(29,083)	149,756
Grants and pledges receivable	87,795	(4,564,328)
Guarantees receivable	581,925	(1,079,235)
Prepaid expenses and other assets	(180,141)	(246,685)
Increase in:		
Accounts payable and accrued expenses	406,356	226,302
Other liabilities	38,639	324,388
	<u>(2,757,445)</u>	<u>24,331,880</u>
<b>Net cash provided by (used in) operating activities</b>	<b>(2,757,445)</b>	<b>24,331,880</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, equipment and leasehold improvements	(10,578)	-
Purchases of Investments	(26,065,449)	(19,986,870)
Proceeds of Investments	25,237,000	-
Payments on loans receivable	125,665,185	177,295,324
Issuance of loans receivable	(111,374,877)	(167,498,068)
	<u>13,451,281</u>	<u>(10,189,614)</u>
<b>Net cash provided by (used in) investing activities</b>	<b>13,451,281</b>	<b>(10,189,614)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(6,206,010)	(11,484,125)
Proceeds from issuance of notes payable	1,150,000	10,840,020
	<u>(5,056,010)</u>	<u>(644,105)</u>
<b>Net cash used in financing activities</b>	<b>(5,056,010)</b>	<b>(644,105)</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,637,826</b>	<b>13,498,161</b>
Cash and cash equivalents at the beginning of the year	<u>47,203,610</u>	<u>33,705,449</u>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>\$ 52,841,436</u></b>	<b><u>\$ 47,203,610</u></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 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 training to current and prospective clients so they have the skills they need to grow and sustain their businesses. The training varies depending on the needs of the business and may include financial management, gender equity, agronomics or digital business intelligence. The financial management training 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, 2022.

#### ***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 Investments***

The short-term investments are recorded at fair market value as per the fair value policies later in this section. Included in short-term investments are primarily US Treasury Bills and, to a lesser extent, a mutual fund that invests primarily in money market instruments and short-term fixed income securities.

#### ***Loans Receivable and Allowance for Expected Credit Losses***

Loans receivable are presented at cost net of an allowance for expected credit losses. The allowance for expected credit losses is an estimate of expected losses of loan principal and interest due to borrower non-performance and is determined under Root Capital's allowance for expected credit losses policy. All outstanding loans are risk-rated on a regular basis based on performance factors related to compliance with terms including 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. Loans receivable are pooled based on sharing specific risk factors which are reassessed on a periodic basis. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible.

Expected credit losses are developed using information such as overall historical experience, as its customers' credit history, financial condition, industry, credit reports, and current and future economic and market conditions along with consideration of performance to terms and other forward-looking information. Allowances can be affected by changes in the industry, customer repayment issues or customer bankruptcies when such events are reasonable and supportable. Historical information is used in addition to reasonable and supportable forecast periods, where applicable.

# ROOT CAPITAL, INC.

## **Notes to Combined Financial Statements**

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

#### **Accounting Pronouncement Adopted**

Effective January 1, 2023, Root Capital adopted ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL"). ASU 2016-13 uses an expected credit loss impairment model for financial instruments, including trade receivables. The guidance requires entities to consider forward-looking information to estimate expected credit losses. Management determined that its prior measurement methods arrived at the same result as with the new standard and thus there was no impact to the allowance for credit losses on adoption.

#### **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 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.

#### **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.

# ROOT CAPITAL, INC.

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

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

#### ***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 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.

##### ***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.

# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

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

#### *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.

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 2022 financial statements in order to conform to the current year presentation. Such reclassifications had no effect on the change in net assets.

#### ***Pending Accounting Pronouncements***

Management is not aware of any new accounting pronouncements that are expected to have impact.

### **Note 3 - Short-term Investments**

Short-term investments are considered Level 1 within the fair value hierarchy at December 31, 2023 and 2022.



# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 4 - Loans Receivable and Collateral Dependent Impaired Loans Receivable

Following is a summary of Root Capital's loans receivable as of December 31:

	<b>2023</b>			
	<b>Number of Loans</b>	<b>Outstanding Principal</b>	<b>Credit Loss Allowance</b>	<b>Net</b>
Loans receivable (with interest at rates averaging 10% - 11%)	110	\$ 31,358,248	\$ 1,706,456	\$ 29,651,792
<b>Total loans receivable</b>	<b>110</b>	<b>\$ 31,358,248</b>	<b>\$ 1,706,456</b>	<b>\$ 29,651,792</b>
	<b>2022</b>			
	<b>Number of Loans</b>	<b>Outstanding Principal</b>	<b>Credit Loss Allowance</b>	<b>Net</b>
Loans receivable (with interest at rates averaging 10% - 11%)	127	\$ 46,370,720	\$ 2,419,044	\$ 43,951,676
<b>Total loans receivable</b>	<b>127</b>	<b>\$ 46,370,720</b>	<b>\$ 2,419,044</b>	<b>\$ 43,951,676</b>

Scheduled repayments of loans receivable are as follows at December 31, 2023:

#### **Year Ending December 31,**

2024	\$ 30,026,420
2025	915,878
2026	<u>256,889</u>
	31,199,187
Less: allowance for loan losses	(1,706,456)
Deferred origination fees, net of loan origination costs	<u>159,061</u>
<b>Net loan receivable</b>	<b><u>\$ 29,651,792</u></b>

Most loans receivable are denominated in United States dollars with modest amounts being in various other currencies at December 31, 2023 and 2022.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 4 - 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 2023</i>	<i>Claims in 2022</i>
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	\$ -	\$ -	-
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of \$5,542,500	Through June 2025	1,247,410	-	-
United States International Development Finance Corporation ("DFC") 75% Maximum Loan Portfolio	Maximum obligations of \$70,000,000	Through April 2027	24,448,914	4,099,728	221,582

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately \$47,342,000 and \$46,370,000 for the years ended December 31, 2023 and 2022, 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 5 - Allowance for Expected Credit Losses

#### Allowance for Expected Credit Losses

The allowance for expected credit loss policy groups loans in pools based on shared characteristics. The allowance for expected credit loss rates are reviewed and updated periodically. 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 expected credit 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 expected credit losses.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 5 - Allowance for Expected Credit Losses (Continued)

#### Allowance for Expected Credit Losses (Continued)

The allowance for expected credit 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, 2023 and 2022 (shown prior to the application of guarantees) for the secured and unsecured loans:

<i>Loan Pool</i>	<i>2023</i>	<i>2022</i>
Current	6%	6%
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	23%	19%
Special mention	41%	40%
Substandard	61%	60%
Doubtful	70%	66%
Collateral dependent	Based on collateral value	Based on collateral value

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

	<i>2023</i>	<i>2022</i>
Balance, beginning of year	\$ 2,419,044	\$ 2,839,253
Write-offs	(5,179,079)	(2,800,189)
Recoveries	4,935,804	3,049,735
Provision for expected credit losses	<u>(469,313)</u>	<u>(669,755)</u>
<b>Balance, end of year</b>	<b><u>\$ 1,706,456</u></b>	<b><u>\$ 2,419,044</u></b>

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 5 - Allowance for Expected Credit Losses (Continued)

#### Allowance for Expected Credit Losses (Continued)

Summary of loan risk composition as of December 31:

	<b>2023</b>			
	<b>Outstanding Principal</b>	<b>Percent of Portfolio</b>	<b>Allowance for Expected Credit Losses</b>	<b>Percent of Provision</b>
Current	\$ 26,921,107	86 %	\$ 771,834	45 %
Special mention	982,536	3	101,693	6
Substandard	2,790,853	9	716,221	42
Doubtful	663,752	2	116,708	7
<b>Total</b>	<b>\$ 31,358,248</b>	<b>100 %</b>	<b>\$ 1,706,456</b>	<b>100 %</b>
	<b>2022</b>			
	<b>Outstanding Principal</b>	<b>Percent of Portfolio</b>	<b>Allowance for Expected Credit Losses</b>	<b>Percent of Provision</b>
Current	\$ 36,367,753	78 %	\$ 1,109,370	46 %
Special mention	7,418,081	16	797,315	33
Substandard	1,654,412	4	357,993	15
Doubtful	930,474	2	154,366	6
<b>Total</b>	<b>\$ 46,370,720</b>	<b>100 %</b>	<b>\$ 2,419,044</b>	<b>100 %</b>

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

#### 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 \$82,330 and \$66,313 as of December 31, 2023 and 2022, respectively.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 5 - Allowance for Expected Credit Losses (Continued)

#### Guarantees and Recoveries

As previously disclosed in Note 4, certain loans issued by Root Capital are guaranteed fully or partially by third parties such as the United States International Development Finance Corporation (“DFC”). 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 expected credit 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.

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

	2023	2022
Recoveries:		
DFC Guarantees	\$ 3,647,217	\$ 1,400,817
Other	<u>1,288,587</u>	<u>1,648,918</u>
<b>Total</b>	<b><u>\$ 4,935,804</u></b>	<b><u>\$ 3,049,735</u></b>

#### 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, INC.

## Notes to Combined Financial Statements

### Note 5 - Allowance for Expected Credit Losses (Continued)

#### Impaired Loans (Continued)

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

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.

#### 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). Restructured loan amounts and related reserves were not significant in 2023 and 2022 and thus management has omitted detailed disclosures.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 6 - Grants and Pledges Receivable

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

	<b>2023</b>	<b>2022</b>
One year or less	\$ 8,437,299	\$ 7,443,606
One to five years	<u>5,735,716</u>	<u>6,817,203</u>
Total grants and pledges receivable	14,173,015	14,260,809
Less: discounts	<u>(263,338)</u>	<u>(310,798)</u>
<b>Net grants and pledges receivable</b>	<b><u>\$ 13,909,677</u></b>	<b><u>\$ 13,950,011</u></b>

Conditional grants, excluding amounts under guarantee agreements, were \$8,368,166 and \$13,805,655 at December 31, 2023 and 2022, respectively. The conditions generally relate to milestones that are included in the various grant agreements. Grants are concentrated among a few grantors with there being two grants that are each greater than 10% of total grants receivable in 2023 and one grant in 2022. These grantors amounted to approximately \$6,600,000 and \$4,000,000 of the grants outstanding in 2023 and 2022, respectively.

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

#### Notes Payable

Root Capital had 194 and 218 unsecured notes payable as of December 31, 2023 and 2022, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2032.

#### Subordinated Debt

Root Capital had 12 unsecured notes payable as of December 31, 2023 and 2022. 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.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

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

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

<i>Investor</i>	<u>2023</u>	<u>2022</u>
	<i>Outstanding Principal</i>	<i>Outstanding Principal</i>
Corporation	\$ 8,500,000	\$ 8,500,000
Foundation	19,266,313	20,801,088
Individual	10,332,524	11,518,383
Other	9,138,500	11,461,010
	<u>\$ 47,237,337</u>	<u>\$ 52,280,481</u>

Notes are concentrated among a few investors with there being three notes that are each greater than 10% of total notes payable in 2023 and 2022. These investors amounted to approximately \$18,600,000 of the notes outstanding in 2023 and 2022.

Maturities of notes payable and subordinated debt were as follows at December 31, 2023:

2024	\$ 24,107,335
2025	7,261,208
2026	5,949,106
2027	951,313
2028	1,265,000
Thereafter	<u>7,703,375</u>
<b>Total</b>	<b><u>\$ 47,237,337</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 a line of credit agreement with a bank in the amount of \$3,000,000. The line of credit expires on September 30, 2024. No amounts were outstanding on the line of credit agreement at December 31, 2023 and 2022.

Included in cash and cash equivalents was approximately \$3,000,000 of restricted cash related to the line of credit agreement at December 31, 2022. There was no restriction for cash as of December 31, 2023.



# ROOT CAPITAL, INC.

## *Notes to Combined Financial Statements*

### **Note 8 - Net Assets**

Net assets consisted of the following at December 31:

	<b>2023</b>		
	<b><i>Without Donor Restrictions</i></b>	<b><i>With Donor Restrictions</i></b>	<b><i>Total</i></b>
Investment in property, equipment and leasehold improvements, net	\$ 34,647	\$ -	\$ 34,647
Other net assets	50,951,240	-	50,951,240
Time and purpose restricted	-	18,214,216	18,214,216
	<b>\$ 50,985,887</b>	<b>\$ 18,214,216</b>	<b>\$ 69,200,103</b>
	<b>2022</b>		
	<b><i>Without Donor Restrictions</i></b>	<b><i>With Donor Restrictions</i></b>	<b><i>Total</i></b>
Investment in property, equipment and leasehold improvements, net	\$ 216,808	\$ -	\$ 216,808
Other net assets	49,126,256	-	49,126,256
Time and purpose restricted	-	23,790,657	23,790,657
	<b>\$ 49,343,064</b>	<b>\$ 23,790,657</b>	<b>\$ 73,133,721</b>

### **Note 9 - Commitments and Contingencies**

#### ***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	2023			2022		
	Notional (FX)	Notional (USD)	Fair Value (USD)	Notional (FX)	Notional (USD)	Fair Value (USD)
Euro	€ (1,510,000)	\$ (1,666,434)	\$ (9,184)	€ (1,861,257)	\$ (2,052,287)	\$ 51,046
Ghanaian Cedi	GHC (2,223,363)	(179,986)	1,273	GHC (13,484,290)	(1,075,397)	104,204
	Totals	<u>\$ (1,846,420)</u>	<u>\$ (7,911)</u>	Totals	<u>\$ (3,127,684)</u>	<u>\$ 155,250</u>

### 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, 2023 and 2022.

# ROOT CAPITAL, INC.

## Notes to Combined Financial Statements

### Note 11 - Liquidity and Availability of Resources (Continued)

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

	<b>2023</b>	<b>2022</b>
Financial assets available within 12 months:		
Cash and cash equivalents	\$ 28,734,101	\$ 24,520,348
Short-term investments	21,228,908	20,410,790
Loans receivable, net due in one year or less available for expenditures	28,342,035	39,335,118
Interest receivable, net due in one year or less available for expenditures	286,226	318,745
Grants and pledges receivable, net due in one year or less available for expenditures	<u>8,437,299</u>	<u>7,443,606</u>
Total financial assets available within 12 months	87,028,569	92,028,607
Liquidity resources		
Lines of credit (no balance outstanding as of December 31, 2023 and 2022)	<u>3,000,000</u>	<u>3,000,000</u>
<b>Total financial assets and other liquidity resources</b>	<b><u>\$ 90,028,569</u></b>	<b><u>\$ 95,028,607</u></b>

### Note 12 - Subsequent Events

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 24, 2024, the date the combined financial statements were available to be issued. Management determined that no items through that date required recognition or disclosure within these combined financial statements.