



Combined Financial Statements

Root Capital, Inc.

December 31, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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.

CBIZ CPAs P.C.

Boston, Massachusetts
April 17, 2025

ROOT CAPITAL, INC.

Combined Statements of Financial Position

December 31,

	2024	2023
Assets		
Cash and cash equivalents	\$ 56,517,223	\$ 52,841,436
Escrow funds held for others	595,427	632,445
Short-term investment	16,899,411	21,228,908
Loans receivable, net	28,114,243	29,651,792
Fair value of foreign currency hedges	56,015	-
Interest receivable, net	219,827	286,226
Grants and pledges receivable, net	10,689,017	13,909,677
Guarantees receivable	3,468,326	807,339
Prepaid expenses and other assets	1,267,512	987,211
Property, equipment and leasehold improvements, net	35,029	34,647
	\$ 117,862,030	\$ 120,379,681
Total assets		
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 3,402,061	\$ 1,948,229
Notes payable	50,995,379	40,474,856
Subordinated debt	6,262,824	6,762,481
Accrued interest payable	524,108	461,256
Escrow funds held for others	595,427	632,445
Fair value of foreign currency hedges	-	7,911
Other liabilities	501,471	892,400
	62,281,270	51,179,578
Total liabilities		
Net assets:		
Without donor restrictions	45,076,007	50,985,887
With donor restrictions	10,504,753	18,214,216
	55,580,760	69,200,103
Total net assets		
Total liabilities and net assets		
	\$ 117,862,030	\$ 120,379,681

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2024
(with comparative totals for 2023)

	2024		2023	
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Total</i>
Operating revenue:				
Earned revenue:				
Loan interest	\$ 4,039,640	\$ -	\$ 4,039,640	\$ 4,138,983
Loan fees	1,139,019	-	1,139,019	1,133,107
Provision for loan loss	(2,148,883)	-	(2,148,883)	469,313
Foreign currency translation	(336,217)	-	(336,217)	(535,914)
Other revenue	367,317	-	367,317	122,731
Net earned operating revenue	3,060,876	-	3,060,876	5,328,220
Financial revenue (expense):				
Interest and investment return	2,565,641	-	2,565,641	2,374,980
Interest expense	(899,195)	-	(899,195)	(823,045)
Net financial revenue	1,666,446	-	1,666,446	1,551,935
Net earned and financial revenue	4,727,322	-	4,727,322	6,880,155
Contributions and grants	3,300,260	8,300,238	11,600,498	16,524,600
Net assets released from donor restrictions	16,009,701	(16,009,701)	-	-
Total operating revenue	24,037,283	(7,709,463)	16,327,820	23,404,755
Operating expenses:				
Program services:				
Finance	8,618,986	-	8,618,986	7,802,141
Advise	8,072,209	-	8,072,209	8,264,307
Catalyze	2,967,815	-	2,967,815	2,541,055
Total program services	19,659,010	-	19,659,010	18,607,503
Supporting services:				
Management and general	9,149,704	-	9,149,704	7,897,276
Fundraising	1,138,449	-	1,138,449	833,594
Total supporting services	10,288,153	-	10,288,153	8,730,870
Total operating expenses	29,947,163	-	29,947,163	27,338,373
Change in net assets	(5,909,880)	(7,709,463)	(13,619,343)	(3,933,618)
Net assets at beginning of year	50,985,887	18,214,216	69,200,103	73,133,721
Net assets at end of year	\$ 45,076,007	\$ 10,504,753	\$ 55,580,760	\$ 69,200,103

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.
Combined Statement of Activities
Year Ended December 31, 2023

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating revenue:			
Earned revenue:			
Loan interest	\$ 4,138,983	\$ -	\$ 4,138,983
Loan fees	1,133,107	-	1,133,107
Provision for loan loss	469,313	-	469,313
Foreign currency translation	(535,914)	-	(535,914)
Other revenue	122,731	-	122,731
	<u>5,328,220</u>	<u>-</u>	<u>5,328,220</u>
Net earned operating revenue	5,328,220	-	5,328,220
Financial revenue (expense):			
Interest and investment return	2,374,980	-	2,374,980
Interest expense	(823,045)	-	(823,045)
	<u>1,551,935</u>	<u>-</u>	<u>1,551,935</u>
Net financial expense	1,551,935	-	1,551,935
Net earned and financial revenue	6,880,155	-	6,880,155
Contributions and grants	2,281,792	14,242,808	16,524,600
Net assets released from donor restrictions	19,819,249	(19,819,249)	-
	<u>28,981,196</u>	<u>(5,576,441)</u>	<u>23,404,755</u>
Total operating revenue	28,981,196	(5,576,441)	23,404,755
Operating expenses:			
Program services:			
Finance	7,802,141	-	7,802,141
Advise	8,264,307	-	8,264,307
Catalyze	2,541,055	-	2,541,055
	<u>18,607,503</u>	<u>-</u>	<u>18,607,503</u>
Total program services	18,607,503	-	18,607,503
Supporting services:			
Management and general	7,897,276	-	7,897,276
Fundraising	833,594	-	833,594
	<u>8,730,870</u>	<u>-</u>	<u>8,730,870</u>
Total supporting services	8,730,870	-	8,730,870
Total operating expenses	27,338,373	-	27,338,373
Change in net assets	1,642,823	(5,576,441)	(3,933,618)
Net assets at beginning of year	49,343,064	23,790,657	73,133,721
Net assets at end of year	<u>\$ 50,985,887</u>	<u>\$ 18,214,216</u>	<u>\$ 69,200,103</u>

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2024
(with comparative totals for 2023)

	2024							2023	
	Program Services			Total Program Services	Supporting Services			Total	
Finance	Advise	Catalyze	Management and General		Fundraising	Total Supporting Services	Total		
Personnel	\$ 6,241,587	\$ 3,074,305	\$ 2,402,128	\$ 11,718,020	\$ 6,901,772	\$ 1,045,859	\$ 7,947,631	\$ 19,665,651	\$ 16,036,356
Professional services	678,291	1,923,260	220,847	2,822,398	886,260	12,150	898,410	3,720,808	4,149,889
Travel, conferences, and workshops	570,020	1,471,689	114,895	2,156,604	336,884	13,508	350,392	2,506,996	3,292,396
Occupancy and telecommunications	350,602	159,531	64,830	574,963	118,707	12,647	131,354	706,317	739,567
Other direct costs	778,486	1,443,424	165,115	2,387,025	906,081	54,285	960,366	3,347,391	3,120,165
Total	\$ 8,618,986	\$ 8,072,209	\$ 2,967,815	\$ 19,659,010	\$ 9,149,704	\$ 1,138,449	\$ 10,288,153	\$ 29,947,163	\$ 27,338,373

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2023

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

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statements of Cash Flows

Years Ended December 31,

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ (13,619,343)	\$ (3,933,618)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	14,843	192,739
Provision for loan loss	2,760,126	(469,313)
Provision for interest loss	165,463	61,602
Realized and unrealized losses (gains) on investments	616	(2,799)
Present value discount on grants and pledges	(123,656)	(47,461)
Foreign currency translation	336,217	535,914
(Increase) decrease in:		
Interest receivable	(99,064)	(29,083)
Grants and pledges receivable	3,344,316	87,795
Guarantees receivable	(2,729,866)	581,925
Prepaid expenses and other assets	(280,301)	(180,141)
Increase in:		
Accounts payable and accrued expenses	1,543,833	406,356
Other liabilities	(390,929)	38,639
Net cash used in operating activities	<u>(9,077,745)</u>	<u>(2,757,445)</u>
Cash flows from investing activities:		
Purchase of property, equipment and leasehold improvements	(15,225)	(10,578)
Purchases of investments	(17,213,420)	(26,065,449)
Proceeds of investments	21,542,301	25,237,000
Payments on loans receivable	126,668,727	125,665,185
Issuance of loans receivable	(128,228,596)	(111,374,877)
Net cash provided by investing activities	<u>2,753,787</u>	<u>13,451,281</u>
Cash flows from financing activities:		
Principal payments on notes payable	(12,005,000)	(6,206,010)
Proceeds from issuance of notes payable	22,004,745	1,150,000
Net cash provided by (used in) financing activities	<u>9,999,745</u>	<u>(5,056,010)</u>
Net increase in cash and cash equivalents	3,675,787	5,637,826
Cash and cash equivalents at the beginning of the year	<u>52,841,436</u>	<u>47,203,610</u>
Cash and cash equivalents at the end of the year	<u>\$ 56,517,223</u>	<u>\$ 52,841,436</u>

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. Both 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.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

Cash and Cash Equivalents

Root Capital considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost plus accrued interest. Root Capital maintains cash balances at financial institutions which exceed federally insured limits. Root Capital monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Root Capital has modest amounts on deposit in foreign banks in both dollar and local currencies.

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, Certificates of Deposit, and, to a lesser extent, a mutual fund that invests primarily in money market instruments and short-term fixed income securities. Short-term investments are considered Level 1 within the fair value hierarchy at December 31, 2024 and 2023.

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)

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 \$10,000 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.

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. Net assets with donor restrictions primarily relate to funds that support Root Capital's mission.

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.

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.

Note 3 - Loans Receivable and Collateral Dependent Impaired Loans Receivable

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

	2024			
	Number of Loans	Outstanding Principal	Credit Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	101	\$ 30,521,091	\$ 2,406,848	\$ 28,114,243
Total loans receivable	101	\$ 30,521,091	\$ 2,406,848	\$ 28,114,243
	2023			
	Number of Loans	Outstanding Principal	Credit Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	110	\$ 31,358,248	\$ 1,706,456	\$ 29,651,792
Total loans receivable	110	\$ 31,358,248	\$ 1,706,456	\$ 29,651,792

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, 2024:

Year Ending December 31,	
2025	\$ 28,625,905
2026	1,025,662
2027	<u>663,000</u>
	30,314,567
Less: allowance for loan losses	(2,406,848)
Deferred origination fees, net of loan origination costs	<u>206,524</u>
Net loan receivable	<u><u>\$ 28,114,243</u></u>

Most loans receivable are denominated in United States dollars with modest amounts being in various other currencies at December 31, 2024 and 2023.

Guarantee Agreements

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

Guarantor and Facility	Amount of Obligation	Term of Coverage	Outstanding Loan Balances	Claims in 2024	Claims in 2023
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of \$5,542,500	Through June 2025	\$ 267,557	\$ 126,021	\$ -
Development Finance Corporation ("DFC") 75% Maximum Loan Portfolio Guarantee	Maximum obligations of \$70,000,000	Through April 2027	27,497,962	992,324	4,099,728

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately \$42,168,000 and \$47,342,000 for the years ended December 31, 2024 and 2023, 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.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - 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.

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, 2024 and 2023 (shown prior to the application of guarantees) for the secured and unsecured loans:

<i>Loan Pool</i>	<i>2024</i>	<i>2023</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%	23%
Special mention	41%	41%
Substandard	61%	61%
Doubtful	70%	70%
Collateral dependent	Based on collateral value	Based on collateral value

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Expected Credit Losses (Continued)

Allowance for Expected Credit Losses (Continued)

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

	2024	2023
Balance, beginning of year	\$ 1,706,456	\$ 2,419,044
Write-offs	(5,906,332)	(5,179,079)
Recoveries	4,457,840	4,935,804
Provision for expected credit losses	<u>2,148,884</u>	<u>(469,313)</u>
Balance, end of year	<u>\$ 2,406,848</u>	<u>\$ 1,706,456</u>

Summary of loan risk composition as of December 31:

	2024			
	Outstanding Principal	Percent of Portfolio	Allowance for Expected Credit Losses	Percent of Provision
Current	\$ 23,592,024	77 %	\$ 593,487	25 %
Special mention	4,637,257	15	893,835	37
Substandard	1,765,265	6	589,579	24
Doubtful	<u>526,545</u>	<u>2</u>	<u>329,947</u>	<u>14</u>
Total	<u>\$ 30,521,091</u>	<u>100 %</u>	<u>\$ 2,406,848</u>	<u>100 %</u>
	2023			
	Outstanding Principal	Percent of Portfolio	Allowance for Expected Credit Losses	Percent of Provision
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	<u>663,752</u>	<u>2</u>	<u>116,708</u>	<u>7</u>
Total	<u>\$ 31,358,248</u>	<u>100 %</u>	<u>\$ 1,706,456</u>	<u>100 %</u>

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 4 - Allowance for Expected Credit Losses (Continued)

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 \$125,335 and \$82,330 as of December 31, 2024 and 2023, respectively.

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”). 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:

	2024	2023
Recoveries:		
DFC Guarantees	\$ 3,613,395	\$ 3,647,217
Other	844,445	1,288,587
Total	\$ 4,457,840	\$ 4,935,804

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 4 - 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 2024 and 2023 and thus management has omitted detailed disclosures.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Grants and Pledges Receivable

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

	2024	2023
One year or less	\$ 7,542,518	\$ 8,437,299
One to five years	<u>3,286,181</u>	<u>5,735,716</u>
Total grants and pledges receivable	10,828,699	14,173,015
Less: discounts	<u>(139,682)</u>	<u>(263,338)</u>
Net grants and pledges receivable	<u>\$ 10,689,017</u>	<u>\$ 13,909,677</u>

Conditional grants were \$3,105,236 and \$8,368,166 at December 31, 2024 and 2023, respectively. This excludes the conditional grants from USAID that were terminated after year end. The conditions generally relate to milestones that are included in the various grant agreements. Grants are concentrated among a few grantors with there being four grants in 2024 and two grants in 2023 that are each greater than 10% of total grants receivable in 2024. These grantors amounted to approximately \$7,800,000 and \$6,600,000 of the grants outstanding in 2024 and 2023, respectively.

Note 6 - Notes Payable, Subordinated Debt and Line of Credit

Notes Payable

Root Capital had 175 and 194 unsecured notes payable as of December 31, 2024 and 2023, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2032.

Subordinated Debt

Root Capital had 14 and 12 unsecured notes payable as of December 31, 2024 and 2023, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2034. These notes are subordinate to the notes payable above.

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

<i>Investor</i>	<u>2024</u> <i>Outstanding Principal</i>	<u>2023</u> <i>Outstanding Principal</i>
Corporation	\$ 16,000,000	\$ 8,500,000
Foundation	18,624,229	19,266,313
Individual	14,873,948	10,332,524
Other	<u>7,760,026</u>	<u>9,138,500</u>
	<u>\$ 57,258,203</u>	<u>\$ 47,237,337</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 6 - Notes Payable, Subordinated Debt and Line of Credit (Continued)

Notes are concentrated among a few investors with there being two notes in 2024 and three notes in 2023 that are each greater than 10% of total notes payable. These investors amounted to approximately \$20,800,000 and \$18,600,000 of the notes outstanding in 2024 and 2023, respectively.

Maturities of notes payable and subordinated debt were as follows at December 31, 2024:

2025	\$ 17,509,231
2026	6,815,998
2027	15,131,148
2028	1,265,000
2029	740,000
Thereafter	<u>15,796,826</u>
Total	<u><u>\$ 57,258,203</u></u>

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

Line of Credit

Root Capital had a line of credit agreement with a bank in the amount of \$3,000,000 which expired on September 30, 2024. No amounts were outstanding on the line of credit agreement at December 31, 2023.

Note 7 - Net Assets

Net assets consisted of the following at December 31:

	2024		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Investment in property, equipment and leasehold improvements, net	\$ 35,029	\$ -	\$ 35,029
Undesignated net assets	45,040,978	-	45,040,978
Time and purpose restricted	<u>-</u>	<u>10,504,753</u>	<u>10,504,753</u>
Total	<u><u>\$ 45,076,007</u></u>	<u><u>\$ 10,504,753</u></u>	<u><u>\$ 55,580,760</u></u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 7 - Net Assets (Continued)

	2023		Total
	Without Donor Restrictions	With Donor Restrictions	
Investment in property, equipment and leasehold improvements, net	\$ 34,647	\$ -	\$ 34,647
Undesignated net assets	50,951,240	-	50,951,240
Time and purpose restricted	-	18,214,216	18,214,216
Total	\$ 50,985,887	\$ 18,214,216	\$ 69,200,103

Note 8 - 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.

Note 9 - 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		2024			2023			
		Notional (FX)	Notional (USD)	Fair Value (USD)	Notional (FX)	Notional (USD)	Fair Value (USD)	
Euro	€	(1,510,174)	\$ (1,644,583)	\$ 77,832	€	(1,510,000)	\$ (1,666,434)	\$ (9,184)
Ghanaian Cedi	GHC	(5,317,051)	(304,480)	(21,817)	GHC	(2,223,363)	(179,986)	1,273
	Totals		\$ (1,949,063)	\$ 56,015	Totals		\$ (1,846,420)	\$ (7,911)

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 10 - 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. Root Capital has generated positive operating cash flows for the fiscal years ended December 31, 2024 and 2023.

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

	2024	2023
Financial assets available within 12 months:		
Cash and cash equivalents	\$ 39,007,993	\$ 28,734,101
Short-term investments	16,899,411	21,228,908
Loans receivable, net due in one year or less available for expenditures	26,247,614	28,342,035
Interest receivable, net due in one year or less available for expenditures	219,827	286,226
Grants and pledges receivable, net due in one year or less available for expenditures	<u>7,542,518</u>	<u>8,437,299</u>
Total financial assets available within 12 months	89,917,363	87,028,569
Liquidity resources		
Line of credit (no balance outstanding as of December 31, 2023)	<u>-</u>	<u>3,000,000</u>
Total financial assets and other liquidity resources	<u>\$ 89,917,363</u>	<u>\$ 90,028,569</u>

Note 11 - Risks and Uncertainties

Due to the federal government's review and potential restructuring of federal funding priorities, there is uncertainty regarding the continuation and amount of future funding from federal sources. Root Capital is monitoring policy developments and may need to explore alternative funding sources to mitigate potential impacts.

Note 12 - Subsequent Events

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 17, 2025, 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.