



Combined Financial Statements

Root Capital, Inc.

December 31, 2022 and 2021



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, 2022 and 2021, 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

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

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



Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

Maye Hoffman McCann P.C.

Boston, Massachusetts
April 18, 2023

ROOT CAPITAL, INC.

Combined Statements of Financial Position

December 31,

	2022	2021
Assets		
Cash and cash equivalents	\$ 47,190,480	\$ 33,705,449
Escrow funds held for others	1,235,918	1,889,714
Short-term investment	20,410,790	225,977
Loans receivable, net	43,951,676	53,595,627
Fair value of foreign currency hedges	155,250	35,465
Interest receivable, net	318,745	451,057
Grants and pledges receivable, net	13,950,011	9,669,388
Guarantees receivable	1,389,264	310,029
Prepaid expenses and other assets	807,070	560,385
Property, equipment and leasehold improvements, net	216,808	430,199
	\$ 129,626,012	\$ 100,873,290
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,622,682	\$ 1,312,115
Notes payable	45,528,132	45,328,862
Subordinated debt	6,752,349	7,595,724
Accrued interest payable	499,449	583,713
Escrow funds held for others	1,235,918	1,889,714
Other liabilities	853,761	529,373
	56,492,291	57,239,501
Total liabilities		
Net assets:		
Without donor restrictions	49,343,064	17,686,180
With donor restrictions	23,790,657	25,947,609
	73,133,721	43,633,789
Total net assets		
	\$ 129,626,012	\$ 100,873,290
Total liabilities and net assets	\$ 129,626,012	\$ 100,873,290

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2022
(with comparative totals for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenue:				
Earned revenue:				
Loan interest	\$ 5,896,738	\$ -	\$ 5,896,738	\$ 4,984,694
Loan fees	1,527,607	-	1,527,607	1,397,451
Provision for loan loss	669,755	-	669,755	(482,333)
Foreign currency translation	(396,666)	-	(396,666)	(212,193)
Other revenue	303,998	-	303,998	93,203
Net earned operating revenue	8,001,432	-	8,001,432	5,780,822
Financial revenue (expense):				
Interest and investment return	433,839	-	433,839	39,333
Interest expense	(941,079)	-	(941,079)	(994,304)
Net financial expense	(507,240)	-	(507,240)	(954,971)
Net earned and financial revenue	7,494,192	-	7,494,192	4,825,851
Contributions and grants	26,974,022	14,904,116	41,878,138	26,267,601
Net assets released from donor restrictions	17,061,068	(17,061,068)	-	-
Total operating revenue	51,529,282	(2,156,952)	49,372,330	31,093,452
Operating expenses:				
Program services:				
Finance	6,723,276	-	6,723,276	4,896,595
Advise	6,301,299	-	6,301,299	5,541,424
Catalyze	745,504	-	745,504	517,067
Total program services	13,770,079	-	13,770,079	10,955,086
Supporting services:				
Management and general	5,567,823	-	5,567,823	5,085,993
Fundraising	534,496	-	534,496	445,623
Total supporting services	6,102,319	-	6,102,319	5,531,616
Total operating expenses	19,872,398	-	19,872,398	16,486,702
Change in net assets	31,656,884	(2,156,952)	29,499,932	14,606,750
Net assets at beginning of year	17,686,180	25,947,609	43,633,789	29,027,039
Net assets at end of year	\$ 49,343,064	\$ 23,790,657	\$ 73,133,721	\$ 43,633,789

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2021

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating revenue:			
Earned revenue:			
Loan interest	\$ 4,984,694	\$ -	\$ 4,984,694
Loan fees	1,397,451	-	1,397,451
Provision for loan loss	(482,333)	-	(482,333)
Foreign currency translation	(212,193)	-	(212,193)
Other revenue	93,203	-	93,203
	<u>5,780,822</u>	<u>-</u>	<u>5,780,822</u>
Net earned operating revenue			
Financial revenue (expense):			
Interest and investment return	39,333	-	39,333
Interest expense	(994,304)	-	(994,304)
	<u>(954,971)</u>	<u>-</u>	<u>(954,971)</u>
Net financial expense			
	<u>4,825,851</u>	<u>-</u>	<u>4,825,851</u>
Net earned and financial revenue			
Contributions and grants	1,980,349	24,287,252	26,267,601
Net assets released from donor restrictions	11,836,323	(11,836,323)	-
	<u>18,642,523</u>	<u>12,450,929</u>	<u>31,093,452</u>
Total operating revenue			
Operating expenses:			
Program services:			
Finance	4,896,595	-	4,896,595
Advise	5,541,424	-	5,541,424
Catalyze	517,067	-	517,067
	<u>10,955,086</u>	<u>-</u>	<u>10,955,086</u>
Total program services			
Supporting services:			
Management and general	5,085,993	-	5,085,993
Fundraising	445,623	-	445,623
	<u>5,531,616</u>	<u>-</u>	<u>5,531,616</u>
Total supporting services			
Total operating expenses	<u>16,486,702</u>	<u>-</u>	<u>16,486,702</u>
Change in net assets	2,155,821	12,450,929	14,606,750
Net assets at beginning of year	15,530,359	13,496,680	29,027,039
Net assets at end of year	<u>\$ 17,686,180</u>	<u>\$ 25,947,609</u>	<u>\$ 43,633,789</u>

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2022
(with comparative totals for 2021)

	2022							2021
	Program Services			Total Program Services	Supporting Services			Total
	Finance	Advise	Catalyze		Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 4,302,421	\$ 1,955,363	\$ 514,345	\$ 6,772,129	\$ 4,068,734	\$ 494,699	\$ 4,563,433	\$ 9,399,428
Professional services	874,030	1,918,759	144,855	2,937,644	512,959	14,000	526,959	3,203,237
Travel, conferences, and workshops	491,615	1,235,544	43,941	1,771,100	237,534	12,935	250,469	514,931
Occupancy and telecommunications	406,299	105,185	16,052	527,536	69,117	5,489	74,606	1,071,618
Other direct costs	648,911	1,086,448	26,311	1,761,670	679,479	7,373	686,852	2,297,488
Total	\$ 6,723,276	\$ 6,301,299	\$ 745,504	\$ 13,770,079	\$ 5,567,823	\$ 534,496	\$ 6,102,319	\$ 16,486,702

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2021

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

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statements of Cash Flows

Years Ended December 31,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 29,499,932	\$ 14,606,750
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	213,391	246,573
Provision for loan loss	(669,755)	482,333
Provision for interest loss	(17,444)	(14,458)
Gain on sale of investments	(184,813)	(49)
Rent abatement liability	-	60,941
Present value discount on grants and pledges	283,705	23,638
Foreign currency translation	396,665	212,193
(Increase) decrease in:		
Interest receivable	149,756	24,583
Grants and pledges receivable	(4,564,328)	(1,553,253)
Guarantees receivable	(1,079,235)	(210,030)
Prepaid expenses and other assets	(246,685)	182,472
Increase (decrease) in:		
Accounts payable and accrued expenses	226,302	268,983
Other liabilities	324,388	(92,510)
	24,331,879	14,238,166
Net cash provided by operating activities	24,331,879	14,238,166
Cash flows from investing activities:		
Purchase of property, equipment and leasehold improvements	-	(1,075)
Purchases of Investments	(20,000,000)	-
Payments on loans receivable	177,295,324	134,089,410
Issuance of loans receivable	(167,498,067)	(148,276,208)
	(10,202,743)	(14,187,873)
Net cash used in investing activities	(10,202,743)	(14,187,873)
Cash flows from financing activities:		
Principal payments on notes payable	(11,484,125)	(12,125,048)
Proceeds from issuance of notes payable	10,840,020	13,480,000
	(644,105)	1,354,952
Net cash provided by (used in) financing activities	(644,105)	1,354,952
Net increase in cash and cash equivalents	13,485,031	1,405,245
Cash and cash equivalents at the beginning of the year	33,705,449	32,300,204
Cash and cash equivalents at the end of the year	\$ 47,190,480	\$ 33,705,449

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

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Root Capital considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost plus accrued interest. Root Capital maintains cash balances at financial institutions which exceed federally insured limits. Root Capital monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Root Capital has modest amounts on deposit in foreign banks in both dollar and local currencies. Included in cash and cash equivalents was approximately \$3,000,000 of restricted cash at December 31, 2022 and 2021.

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 Loan Losses (Including Collateral Dependent Impaired Loans Receivable)

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

Grants and Pledges Receivable

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

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Property, Equipment and Leasehold Improvements

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

Income Taxes

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

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

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

Net Asset Classification

Net assets are reported as follows:

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

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contributions and Grants Revenue

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

Earned Revenue

Revenue from loan interest is recognized as earned over the life of the loan on unpaid principal balances based on the interest rates noted in the respective agreements unless the underlying loan is in nonaccrual status.

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

Operating Revenue and Expenses

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

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

Fair Value Measurements

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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

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

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

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

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

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

Use of Estimates

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

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

Reclassifications

Certain reclassifications have been made to the 2021 financial statements in order to conform to the current year presentation. Such reclassifications had no effect on the change in net assets.

Leases and Adopted Accounting Pronouncement

Effective January 1, 2022, Root Capital adopted Accounting Standards Codification (“ASC”) 842, *Leases*, issued by the Financial Accounting Standards Board (“FASB”) to increase transparency and comparability among organizations by requiring the recognition of right-to-use assets and a lease liability initially measured at the present value of the lease payments on the statement of financial position. The effect of the change resulted in recognizing a right-of-use asset of approximately \$420,000 and a corresponding lease liability of approximately \$420,000, which represent the present value of remaining lease payments at the date of adoption. At December 31, 2022, the right-of-use asset of approximately \$291,000 is recorded in prepaid expenses and other assets, and the lease liability of approximately \$296,000 is recorded in other liabilities. Given the de minimis nature of the balances, further disclosure is omitted.

Pending Accounting Pronouncements

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

Note 3 - Short-term Investments

Short-term investments are considered Level 1 within the fair value hierarchy at December 31, 2022 and 2021.

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 and collateral dependent impaired loans receivable as of December 31:

	2022			
	Number of Loans	Outstanding Principal	Loan Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	127	\$ 46,370,720	\$ 2,419,044	\$ 43,951,676
Collateral dependent impaired loans receivable	-	-	-	-
Total loans receivable	127	\$ 46,370,720	\$ 2,419,044	\$ 43,951,676

	2021			
	Number of Loans	Outstanding Principal	Loan Loss Allowance	Net
Loans receivable (with interest at rates averaging 10% - 11%)	112	\$ 56,434,880	\$ 2,839,253	\$ 53,595,627
Collateral dependent impaired loans receivable	-	-	-	-
Total loans receivable	112	\$ 56,434,880	\$ 2,839,253	\$ 53,595,627

Scheduled repayments of loans receivable are as follows at December 31, 2022:

Year Ending December 31,

2023	\$ 41,456,873
2024	3,935,849
2025	1,049,225
	46,441,947
Less: allowance for loan losses	(2,419,044)
Deferred loan origination costs, net of origination fees	(71,227)
Net loan receivable	\$ 43,951,676

Most loans receivable are denominated in United States dollars with modest amounts being in various other currencies at December 31, 2022 and 2021.

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 2022</i>	<i>Claims in 2021</i>
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	\$ 64,734	\$ -	\$ 100,000
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of \$5,542,500	Through June 2025	1,726,161	-	-
United States International Development Finance Corporation ("DFC") 75% Maximum Loan Portfolio	Maximum obligations of \$70,000,000	Through September 2027	35,698,866	221,582	-

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately \$46,370,000 and \$13,653,000 for the years ended December 31, 2022 and 2021, 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 Loan Losses

Impaired Loans

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

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Allowance for Loan 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.

Allowance for Loan Losses

The allowance for loan loss policy groups loans in pools based on shared characteristics. The allowance for loan loss rates are reviewed and updated periodically. The probable loss for loans in the Large, Secured, Impaired pool and loans that are collateral dependent is calculated at the individual loan level, based on collateral value. No allowance is recorded for loans in the Large, Secured, Impaired pool if collateral values for those loans exceed the outstanding principal balance. The probable loss for all other impaired loans is calculated using historical loss rates. In considering the allowance for loan losses, Root Capital includes only hard collateral, which consists of real estate, equipment and machinery. Although Root Capital obtains other types of collateral such as inventory and trade receivables, those types of collateral are generally more difficult to track and assign value, therefore management has excluded them from the calculation of the allowance for loan losses.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

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

The following rates were effective as of December 31, 2022 and 2021 (shown prior to the application of guarantees) for the secured and unsecured loans:

<i>Loan Pool</i>	2022	2021
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	19%	19%
Special mention	40%	40%
Substandard	60%	60%
Doubtful	66%	66%
Collateral dependent	Based on collateral value	Based on collateral value

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

	2022	2021
Balance, beginning of year	\$ 2,839,253	\$ 4,227,076
Write-offs	(2,800,189)	(3,491,279)
Recoveries	3,049,735	1,621,123
Provision for loan losses	(669,755)	482,333
Balance, end of year	<u>\$ 2,419,044</u>	<u>\$ 2,839,253</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

Summary of loan risk composition as of December 31:

	2022			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Percent of Provision
Current	\$ 36,367,753	78 %	\$ 1,109,370	46 %
Current restructured	-	0	-	0
Special mention	7,418,081	16	797,315	33
Substandard	1,654,412	4	357,993	15
Doubtful	930,474	2	154,366	6
Total	<u>\$ 46,370,720</u>	<u>100 %</u>	<u>\$ 2,419,044</u>	<u>100 %</u>
	2021			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Percent of Provision
Current	\$ 51,030,863	91 %	\$ 1,617,494	57 %
Current restructured	1,837,424	3	228,113	8
Special mention	1,808,162	3	267,865	9
Substandard	992,567	2	217,552	8
Doubtful	765,864	1	508,229	18
Total	<u>\$ 56,434,880</u>	<u>100 %</u>	<u>\$ 2,839,253</u>	<u>100 %</u>

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

Restructured Loans

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

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Allowance for Loan Losses (Continued)

Restructured Loans (Continued)

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

2022 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss	Percent of Provision
Special mention	\$ 42,227	28 %	\$ 17,004	21 %
Substandard	106,033	72	63,046	79
Total	\$ 148,260	100 %	\$ 80,050	100 %

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

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”) formally known as USAID’s Development Credit Authority. A guarantee receivable is established upon write-off of the guaranteed loan. Amounts that are expected to be recovered under these programs, but are not yet recoverable under guarantee arrangements, are estimated and thus lower the amount required to be reserved as an allowance for loan losses. Other recoveries that are not related to guarantees are recognized as they become known which is generally when cash is received. All recoveries are presented as a reduction to gross write-offs.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 5 - Allowance for Loan Losses (Continued)

Guarantees and Recoveries (Continued)

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

	2022	2021
Recoveries:		
DFC Guarantees	\$ 1,400,817	\$ 210,030
Other	<u>1,648,918</u>	<u>1,411,093</u>
Total	<u>\$ 3,049,735</u>	<u>\$ 1,621,123</u>

Allowance for Interest Losses

Root Capital also records an allowance for potential losses on interest receivable for all loans through the date that they were placed on non-accrual. Root Capital presents the provisioning expense associated with such allowances against interest revenue on loans in the accompanying combined statements of activities. The balance of the allowance for losses on interest receivable was \$66,313 and \$100,492 as of December 31, 2022 and 2021, respectively.

Note 6 - Grants and Pledges Receivable

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

	2022	2021
One year or less	\$ 7,443,606	\$ 5,018,482
One to five years	<u>6,817,203</u>	<u>4,678,000</u>
Total grants and pledges receivable	14,260,809	9,696,482
Less: discounts	<u>(310,798)</u>	<u>(27,094)</u>
Net grants and pledges receivable	<u>\$ 13,950,011</u>	<u>\$ 9,669,388</u>

Conditional grants, excluding amounts under guarantee agreements, were \$13,805,655 and \$3,376,364 at December 31, 2022 and 2021, respectively. The conditions generally relate to milestones that are included in the various grant agreements.

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 7 - Property, Equipment and Leasehold Improvements

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

		2022	2021
Leasehold improvements	5 - 7 Years	\$ 70,167	\$ 76,550
Property and equipment	3 - 5 Years	28,882	27,595
Computer software and hardware	3 - 5 Years	<u>1,295,421</u>	<u>1,294,139</u>
		1,394,470	1,398,284
Less: accumulated depreciation and amortization		<u>1,177,662</u>	<u>968,085</u>
Property, equipment and leasehold improvements, net		<u>\$ 216,808</u>	<u>\$ 430,199</u>

Depreciation and amortization expense was \$213,391 and \$246,573 in 2022 and 2021, respectively.

Note 8 - Notes Payable, Subordinated Debt and Line of Credit

Notes Payable

Root Capital had 218 and 225 unsecured notes payable as of December 31, 2022 and 2021, 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 and 11 unsecured notes payable as of December 31, 2022 and 2021. Interest rates are modest and interest payments are due annually with principal due at various dates through 2030. These notes are subordinate to the notes payable above.

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

Investor	<u>2022</u>	<u>2021</u>
	Outstanding Principal	Outstanding Principal
Corporation	\$ 8,500,000	\$ 8,500,000
Foundation	20,801,088	26,766,609
Individual	11,518,383	12,367,938
Other	<u>11,461,010</u>	<u>5,290,039</u>
	<u>\$ 52,280,481</u>	<u>\$ 52,924,586</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 8 - Notes Payable, Subordinated Debt and Line of Credit (Continued)

Notes are concentrated among a few investors with there being three and one notes that are each greater than 10% of total notes payable in 2022 and 2021, respectively. These investors amounted to \$18,600,000 and \$7,500,000 of the notes outstanding in 2022 and 2021, respectively.

Maturities of notes payable and subordinated debt were as follows at December 31, 2022:

2023	\$ 19,670,132
2024	13,388,500
2025	6,814,500
2026	3,827,349
2027	850,000
Thereafter	<u>7,730,000</u>
Net loan receivable	<u><u>\$ 52,280,481</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.

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, 2023. No amounts were outstanding on the line of credit agreement at December 31, 2022 and 2021.

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 and 2021.

Note 9 - Net Assets

Net assets consisted of the following at December 31:

	2022		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
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
Total	<u><u>\$ 49,343,064</u></u>	<u><u>\$ 23,790,657</u></u>	<u><u>\$ 73,133,721</u></u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 9 - Net Assets (Continued)

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

Note 10 - 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.

Note 11 - 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	2022			2021		
	Notional (FX)	Notional (USD)	Fair Value (USD)	Notional (FX)	Notional (USD)	Fair Value (USD)
Euro	€ (1,861,257)	\$ (2,052,287)	\$ 51,046	€ (1,871,532)	\$ (2,181,911)	\$ 47,933
Ghanaian Cedi	GHC (13,484,290)	(1,075,397)	104,204	GHC (4,336,571)	(662,010)	(12,468)
Totals		<u>\$ (3,127,684)</u>	<u>\$ 155,250</u>	Totals	<u>\$ (2,843,921)</u>	<u>\$ 35,465</u>

ROOT CAPITAL, INC.

Notes to Combined Financial Statements

Note 12 - 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, 2022 and 2021.

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

	2022	2021
Financial assets available within 12 months:		
Cash and cash equivalents	\$ 24,520,348	\$ 3,930,909
Short-term investments	20,410,790	225,977
Loans receivable, net due in one year or less available for expenditures	39,335,118	49,974,401
Interest receivable, net due in one year or less available for expenditures	318,745	451,057
Grants and pledges receivable, net due in one year or less available for expenditures	<u>7,443,606</u>	<u>5,018,482</u>
Total financial assets available within 12 months	92,028,607	59,600,826
Liquidity resources		
Lines of credit (no balance outstanding as of December 31, 2022 and 2021)	<u>3,000,000</u>	<u>3,000,000</u>
Total financial assets and other liquidity resources	<u>\$ 95,028,607</u>	<u>\$ 62,600,826</u>

Note 13 - Subsequent Events

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 18, 2023, the date the combined financial statements were available to be issued.