

City and Borough of Sitka  
ANNUAL GRANTS FROM GENERAL FUND  
SUMMARY SHEET

Name of Organization: Spruce Root, Inc.

Alaska State Business License Number (if applicable): 1050052

Name of Contact Person: Leslie Jackson

Phone: [REDACTED] Email: [REDACTED]

Mailing address: [REDACTED] [REDACTED]

Grant Category (check either annual or special emergency grant, and check type of services for annual grant):

- Annual Grant:
  - Human Services or
  - Cultural and Educational Services or
  - Community Development
- Special Emergency Grant

Dollars Requested: \$10,000

Match Dollars Committed: \$1,500 Percentage: 15%

Sources of Matched Dollars: Margaret A. Cargill Philanthropies

Brief Description of the Purpose of the Grant: Spruce Root outlines a proposal for a Path to Prosperity Business and Financial Wellness Training program, designed to support Sitka's economic development and improve the financial well-being of its residents. The program aims to equip participants with essential tools for successfully launching small businesses and effectively managing personal finances.

I, Leslie Jackson, do hereby certify that all information provided for this grant application is accurate and complete to the best of my knowledge.

Name: Leslie Jackson

Title: Grants Manager Date: 8/16/2024

## Detailed Project Description Overview

Spruce Root requests \$10,000 under the City and Borough of Sitka's Non-Profit Grants in the Community Development Category. This funding will support our Path to Prosperity program, providing comprehensive business and financial wellness training to 30 Sitka residents.

Over three days of programming (24 hours total), Spruce Root will provide residents with the tools and strategies needed to start a small business successfully and manage their finances with greater success. We will schedule the training during the first quarter of 2025, likely in late January or early February. The new year is a good time for individuals interested in starting a business or working on their financial management skills. The training will be hosted in a public venue, such as Centennial Hall, and will cover the following topics:

**1. Business Basics (16 hours total):**

- Business Planning
- Break-even Forecasting
- Financial Statement Forecasting
- Marketing
- Branding
- Legal Issues
- Accounting

**2. Financial Wellness (8 hours total):**

- Understanding Credit and Debt
- Managing Credit Scores
- Personal Budgeting
- Wealth Building
- Habit Formation
- Money Mindset

Our team of skilled facilitators will guide participants through both workshops:

- Marc Wheeler (Juneau), Program Manager for Small Business
- Haley Armstrong (Craig), Program Manager for Financial Wellness
- Michael Mausbach (Sitka), Program Manager for Workforce Development
- Isabella Haywood (Sitka), Program Manager for Events and Facilitation.

Wheeler and Armstrong will travel to Sitka to help facilitate the course with their two local colleagues. This approach ensures a mix of local knowledge and broader expertise.

Spruce Root has a strong history of community engagement. We have worked extensively on local projects, including providing professional services for the CBS Tourism Task Force facilitation project and, facilitating the Sitka Tribe of Alaska's strategic planning process, housing summit, and youth programming, but to date have not received funding from the CBS General Fund.

## Expected Outcomes

**Overall Goal:** Our proposed workshops will increase the knowledge and skills of our participants in small business management and personal financial management.

**Short-Term Outcomes and Metrics:** The success of this program will be measured by the following metrics:

**1. Participation Rate**

- The number of participants served (target 30 Sitka residents).

**2. Business Skills Development**

- The number of participants showed an increase in small business knowledge and skills.
- The number of participants who created a one-page business plan.

**3. Financial Literacy Improvement**

- The number of participants showed an increase in personal financial literacy and skills.
- The number of participants that created a personal budget.

**Measurement Methodology:** To assess our success in achieving these outcomes, we will implement:

1. **Pre-event survey:** To establish baseline knowledge and skills
2. **Post-event Survey:** To measure immediate improvement in knowledge and skills
3. **One-year Follow-up Survey:** To assess the long-term impact

**Long-Term Outcomes:** By achieving our short-term goals, we expect our program to contribute to:

1. **Business Development:** More successful businesses in Sitka
2. **Financial Health:** Improved personal finances of residents.
3. **Economic Growth:** Greater wealth creation in the community.

**One-Year Follow-up Assessment:** We will survey the participants one year after the event. At that time, we will ask how many have started a small business and how many have improved their personal financial health.

**Impact on Sitka Community:** The cumulative effect of these outcomes will be:

1. **Stronger Local Economy:** More resilient and diverse local businesses
2. **Increased Financial Stability:** Residents are better equipped to manage personal finances.
3. **Enhanced Economic Resilience:** A community better prepared to face economic challenges.
4. **Improved Quality of Life:** Through increased economic opportunities and financial well-being.

The Path to Prosperity program aims to create a positive economic ripple effect throughout the community by providing Sitka residents with practical business management and personal finance skills. Our broad-based approach to measuring outcomes will allow us to demonstrate the program's effectiveness and make data-driven improvements for future refinements in Sitka and across the region.

## Statement of Need

**Alignment with Sitka’s Strategic Plan:** The proposed Business Skills and Financial Wellness training program directly responds to the City and Borough of Sitka’s current Strategic Plan by supporting two key focus areas:

1. **Economic Development:** Our program aligns with the plan’s emphasis on “Business support services and training.”
2. **Affordability/Quality of Life:** Our Financial Wellness training addresses the Borough’s focus on making Sitka more affordable. By giving residents the tools for personal financial management, we aim to enhance their ability to thrive economically in Sitka.

Furthermore, our program embraces the City & Borough’s recognition that “people are our greatest asset.” By investing in the skills and knowledge of individual Sitkans, we are directly contributing to the development of human capital present in Sitka. By valuing providing skills and resources to individual Sitkans, we will invest in the human capital necessary to make Sitka thrive. In particular, our programming will help the City and Borough achieve item 3.4 in the strategic plan, which is to “convene economic partners to explore the addition of business support services and employment training programs.”

**Regional Economic Context:** The “Southeast By the Numbers 2023” report highlights several key factors that underscore the need for our proposed program:

1. **Workforce Challenges:** The report emphasizes that “Continued long-term growth depends on the region’s ability to respond to housing and childcare shortages that threaten workforce attraction and retention” (Southeast Conference, 2023, p. 1). Our Financial Wellness training will help address these challenges by equipping residents with better financial management skills, potentially improving their ability to afford housing and childcare.
2. **Economic Renaissance:** Southeast Alaska is experiencing an economic resurgence, with business confidence up by 47% (Southeast Conference, 2023, p. 1). Our program will capitalize on this optimism by providing the skills to start and grow businesses, ensuring that Sitka fully participates in this regional economic upswing.
3. **Housing Affordability:** Nearly one-third of Southeast Alaskans cannot afford their homes (Southeast Conference, 2023, p. 6). Our financial wellness training will address this challenge by helping residents manage their finances and improve their housing affordability.
4. **Tourism and Seafood Industries:** The report highlights significant growth in tourism and the continued importance of the seafood and mariculture industries (Southeast Conference, 2023, pp. 4-5). Our business skills training will help local entrepreneurs capitalize on these key economic sectors, fostering new business creation and improving existing operations.

In addition to responding to the listed priority areas, funding this project will allow Spruce Root to leverage existing grant funding to support program deployment in Sitka.

**Reference:** Southeast Conference. (2023). Southeast Alaska by the Numbers 2023.

<https://www.seconference.org/southeast-alaska-numbers>

## Organizational Capacity

Spruce Root has demonstrated a strong track record in delivering community development programs across Southeast Alaska since 2013. Over the past decade, Spruce Root has:

- Issued over 40 loans and guarantees since inception as a Native Community Development Financial Institution (CDFI);
- Served over 300 individuals in 2023 alone and supported over 1,000 unique individuals since our founding;
- Disbursed over \$3.3 million in loan capital;
- Secured nearly \$40 million in additional financing to fund programs;
- Created and maintained hundreds of local jobs across the region and;
- Conducted annual business development competition, awarding 24 winners and distributing \$720,000 for business growth and development.

Over the past decade, we have built a suite of programs, including community-based lending, small business training and support, workforce development, financial literacy training, community planning, and the Sustainable Southeast Partnership. The two programs included in this proposal include:

**Business Basics:** In 2020, Spruce Root developed the Business Basics program for early-stage entrepreneurs. These workshops are offered both virtually and in person. To date, over 320 entrepreneurs have participated in our Business Basics workshops.

**Financial Wellness:** In 2023, Spruce Root revamped our financial wellness workshops and expanded staff capacity to support these efforts. Neary 60 people have taken a Financial Wellness workshop, and we have worked with over 30 individuals since starting with one-on-one coaching at the end of 2023.

### Community Support

Spruce Root's programs have garnered substantial community, foundation, and governmental support, as evidenced by Annual funding from the Sealaska Corporation, the Margaret A. Cargill Philanthropy Foundation, Coeur Mining, Elgee Rehfeld, the McKinley Group, Alaska Litho, the United States Department of Agriculture, the Edgerton Foundation, Disney, Avista Foundation and the Wells Fargo Foundation.

**Spruce Root's Board of Directors includes** Leslie Isaacs (Chair), Robert Allen, Anthony Mallott (Treasurer), La quen náay Liz Medicine Crow, Joe Nelson (Secretary), Chris Perez (President), and Sarah Dybdahl. These board members bring diverse expertise in economic development, finance, community engagement, and Alaska Native corporation leadership, ensuring strong oversight and strategic guidance for Spruce Root's programs. Their commitment to good governance is evident through regular, quarterly board meetings to oversee operations and strategic direction, active board member involvement in crucial decision-making processes, and compliance with all relevant nonprofit governance regulations and best practices.

## Budget

### Statement of assets, revenues, and expenditures from the previous year:

Spruce Root is audited annually; financial statements are included as an attachment.

Total Assets: \$30,397,018 (pg 4)

Total Revenues: \$9,824,402 (pg 5)

Total Expenses: \$4,002,281 (pg 5)

### Detailed budget for the current year, including funds for this project:

Cost Item	Description	Cost	Funding Source	Status
Personnel	Programming and preparation (4 staff)	\$8000	CBS Non-profit Grant	Applied
Conference/Meeting	Event Space (Harrigan Centennial Hall anticipated), food, misc supplies/materials	\$2000	CBS Non-profit Grant	Applied
Travel	Flights, lodging, meals, misc travel costs for 2 staff (from Juneau, Craig) for 3 nights	\$1500	Margaret A Cargill Philanthropies	Secured
<b>Total</b>		<b>\$11,150</b>		

### Itemized grants received or pending for prior and current years:

See above. Margaret A Cargill Philanthropies funding is available to serve as match and travel funds for the project.



P.O. Box 2508  
Cincinnati OH 45201

In reply refer to: [REDACTED]  
May 25, 2018 LTR 4168C 0  
[REDACTED] 000000 00  
[REDACTED]

BODC: TE

SPRUCE ROOT INC  
[REDACTED]



043239

Employer ID number: [REDACTED]  
Form 990 required: Yes

Dear Taxpayer:

We're responding to your request dated May 16, 2018, about your tax-exempt status.

We issued you a determination letter in March 2013, recognizing you as tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3).

We also show you're not a private foundation as defined under IRC Section 509(a) because you're described in IRC Sections 509(a)(1) and 170(b)(1)(A)(vi).

Donors can deduct contributions they make to you as provided in IRC Section 170. You're also qualified to receive tax deductible bequests, legacies, devises, transfers, or gifts under IRC Sections 2055, 2106, and 2522.

In the heading of this letter, we indicated whether you must file an annual information return. If you're required to file a return, you must file one of the following by the 15th day of the 5th month after the end of your annual accounting period:

- Form 990, Return of Organization Exempt From Income Tax
- Form 990EZ, Short Form Return of Organization Exempt From Income Tax
- Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ
- Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation

According to IRC Section 6033(j), if you don't file a required annual information return or notice for 3 consecutive years, we'll revoke your tax-exempt status on the due date of the 3rd required return or notice.

You can get IRS forms or publications you need from our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

If you have questions, call 877-829-5500 between 8 a.m. and 5 p.m.,

May 25, 2018 LTR 4168C 0  
000000 00

SPRUCE ROOT INC  
[REDACTED]

local time, Monday through Friday (Alaska and Hawaii follow Pacific time).

Thank you for your cooperation.

Sincerely yours,



Teri M. Johnson  
Operations Manager, AM Ops. 3



Alaska Business License # 1050052

**Alaska Department of Commerce, Community, and Economic Development**

Division of Corporations, Business, and Professional Licensing  
PO Box 110806, Juneau, AK 99811-0806

This is to certify that

**SPRUCE ROOT, INC.**

owned by

SPRUCE ROOT, INC.

is licensed by the department to conduct business for the period

November 23, 2022 to December 31, 2024  
for the following line(s) of business:

81 - Services



This license shall not be taken as permission to do business in the state without having complied with the other requirements of the laws of the State or of the United States.

This license must be posted in a conspicuous place at the business location.  
It is not transferable or assignable.

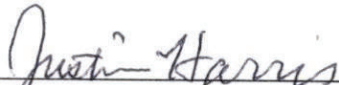
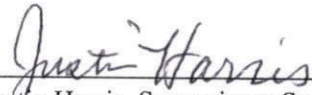
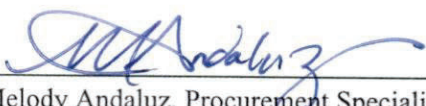


Julie Sande  
Commissioner

# General Fund Grants for Non-Profit Organizations for Fiscal Year 2025

## CBS Liabilities Form

*Complete and submit this form with your Non-Profit Grant Application.*

**Organization Name:** Spruce Root, Inc.

- Property Tax  
  
Justin Harris, Supervisory Senior Accountant  
747-1853
- Sales Tax  
  
Justin Harris, Supervisory Senior Accountant  
747-1853
- Municipal Leases  
  
Melody Andaluz, Procurement Specialist  
747-1852
- Loan/Promissory Note  
  
Brooke Volschenk, Controller  
747-1801
- Utilities  
  
Chelsey Dumag, Utility/Harbor Billing Clerk  
747-1843

*CBS Department signatures must be complete to verify your organization is current on all CBS liabilities.*

# SPRUCE ROOT, INC.

Audited Consolidated Financial Statements

For the Year Ended December 31, 2023



MCDONALD JACOBS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Spruce Root, Inc.

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying consolidated financial statements of Spruce Root, Inc. and Seacoast Trust, LLC, which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Spruce Root, Inc. and Seacoast Trust, LLC, as of December 31, 2023, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Spruce Root, Inc. 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 opinions.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Spruce Root, Inc.'s ability to continue as a going concern for twelve months beyond the consolidated financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Spruce Root, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Spruce Root, Inc.'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.

#### **Report on Summarized Comparative Information**

We have previously audited Spruce Root, Inc.'s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024 on our consideration of the Spruce Root, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Spruce Root, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spruce Root, Inc.'s internal control over financial reporting and compliance.

*McDonald Jacobson, P.C.*

Portland, Oregon  
May 17, 2024

SPRUCE ROOT, INC.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
December 31, 2023  
(With comparative totals for 2022)

	2023	2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,129,742	\$ 659,828
Grants receivable	606,226	714,065
Accounts receivable	44,805	30,153
Prepaid expenses and other assets	30,548	11,151
Loan receivable - current portion	148,852	427
Total current assets	2,960,173	1,415,624
Restricted cash	3,177,891	18,937,672
Loans receivable, less current portion, net of allowance for credit losses of \$216,760 for 2023 and \$94,846 for 2022	1,104,684	680,347
Investments	23,154,270	-
<b>TOTAL ASSETS</b>	<b>\$ 30,397,018</b>	<b>\$ 21,033,643</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 449,795	\$ 275,637
Interest payable	2,255	4,559
Advances on government grants	1,514,879	538,401
Notes payable - current portion	524,813	72,682
Total current liabilities	2,491,742	891,279
Notes payable, less current portion	2,932,920	932,067
Total liabilities	5,424,662	1,823,346
Net assets:		
Without donor restrictions	848,936	720,253
With donor restrictions	24,123,420	18,490,044
Total net assets	24,972,356	19,210,297
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 30,397,018</b>	<b>\$ 21,033,643</b>

See notes to consolidated financial statements.

SPRUCE ROOT, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
For the year ended December 31, 2023  
(With comparative totals for 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Support and revenue:</b>				
Grants	\$ 3,001,590	\$ -	\$ 3,001,590	\$ 1,979,780
Contributions	510,501	4,365,587	4,876,088	18,616,240
Contract revenue	160,677	-	160,677	146,611
In-kind contributions	70,853	-	70,853	70,853
Lending program, net credit loss expense of \$66,649 for 2023 and \$28,087 for 2022	59,591	-	59,591	54,824
Investment income, net	-	1,580,961	1,580,961	-
Other income	74,642	-	74,642	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	313,172	(313,172)	-	-
Total support and revenue	4,191,026	5,633,376	9,824,402	20,868,308
 Expenses:				
Program services	3,193,498	-	3,193,498	2,235,213
Management and general	546,996	-	546,996	597,432
Fundraising	261,787	-	261,787	151,596
Total expenses	4,002,281	-	4,002,281	2,984,241
 Change in net assets	188,745	5,633,376	5,822,121	17,884,067
 Net assets - beginning of year	720,253	18,490,044	19,210,297	1,326,230
 Change in accounting policy - Increase in allowance for credit losses (Note 1)	(60,062)	-	(60,062)	-
 Net assets - end of year	\$ 848,936	\$ 24,123,420	\$ 24,972,356	\$ 19,210,297

See notes to consolidated financial statements.



SPRUCE ROOT, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended December 31, 2023  
(With comparative totals for 2022)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2023 Total</u>	<u>2022 Total</u>
Salaries and related expenses	\$ 1,161,015	\$ 468,106	\$ 220,887	\$ 1,850,008	\$ 1,360,094
Professional fees	406,469	100,385	20,000	526,854	671,703
Grant expense and subawards	1,021,540	17,261	-	1,038,801	417,570
Occupancy	37,543	15,137	7,143	59,823	59,062
Office supplies	65,018	69,572	6,641	141,231	159,541
Travel and training	246,278	59,755	2,263	308,296	279,279
Interest expense	32,807	-	-	32,807	21,318
Credit loss expense	66,649	-	-	66,649	28,087
Miscellaneous expenses	27,449	12,315	4,697	44,461	15,674
Shared costs	<u>195,379</u>	<u>(195,535)</u>	<u>156</u>	<u>-</u>	<u>-</u>
	3,260,147	546,996	261,787	4,068,930	3,012,328
Less expenses netted with revenue:					
Credit loss expense	<u>(66,649)</u>	<u>-</u>	<u>-</u>	<u>(66,649)</u>	<u>(28,087)</u>
 Total expenses	 <u>\$ 3,193,498</u>	 <u>\$ 546,996</u>	 <u>\$ 261,787</u>	 <u>\$ 4,002,281</u>	 <u>\$ 2,984,241</u>

See notes to consolidated financial statements.

SPRUCE ROOT, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended December 31, 2023  
(With comparative totals for 2022)

	2023	2022
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 5,822,121	\$ 17,884,067
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Credit loss expense	66,649	28,087
Net realized/unrealized gain on investments	(967,721)	-
(Increase) decrease in:		
Grants and accounts receivable	93,187	(322,934)
Prepaid expenses and other assets	(19,397)	12,660
Increase (decrease) in:		
Accounts payable and accrued expenses	174,158	169,848
Interest payable	(2,304)	(1,039)
Advances on government grants	976,478	(137,580)
Net cash flows from operating activities	6,143,171	17,633,109
<b>Cash flows from investing activities:</b>		
Payments received on loans receivable	187,760	189,042
Loans made	(887,233)	(306,865)
Purchase of investments	(22,186,549)	-
Net cash flows from investing activities	(22,886,022)	(117,823)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	2,500,000	200,000
Principal payments on notes payable	(47,016)	(47,156)
Net cash flows from financing activities	2,452,984	152,844
 Net change in cash and cash equivalents	(14,289,867)	17,668,130
 Cash and cash equivalents - beginning of year	19,597,500	1,929,370
Cash and cash equivalents - end of year	\$ 5,307,633	\$ 19,597,500
 <b>Reconciliation of cash to statement of financial position:</b>		
Cash	\$ 2,129,742	\$ 659,828
Restricted cash	3,177,891	18,937,672
	\$ 5,307,633	\$ 19,597,500
 <b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 35,111	\$ 22,357

See notes to consolidated financial statements.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Spruce Root, Inc. (“Spruce Root” or “the Organization”) is a 501(c)(3) nonprofit organization and Community Development Financial Institution (CDFI) that serves Southeast Alaska. Headquartered in Juneau, Alaska, Spruce Root was founded by Haa Aani, LLC and Sealaska Corporation in 2012 under the name Haa Aani Community Development Fund, Inc., with the goal of improving access to capital for entrepreneurs in Southeast Alaska. Reestablished as Spruce Root, Inc. in 2017, the Organization continues its mission to promote economic, social, cultural, and environmental wellbeing in the region through its loan program, small business advising, workforce development services, and regional collaboration efforts. Seacoast Trust, LLC was founded in 2022 for the purpose of holding investment funds to manage and grow Spruce Root’s Sustainable Southeast Partnership.

Spruce Root achieves its purpose by providing the following services:

**P2P (Path to Prosperity)** - Spruce Root provides a variety of technical assistance services to entrepreneurs, businesses, youth, and members of the workforce in Southeast Alaska. This includes our annual Path to Prosperity Competition, group workshops like Master Class and Business Basics, as well as one-on-one business coaching and mentorship for entrepreneurs.

**SSP (Sustainable Southeast Partnership)** - Spruce Root's mission is reliant on our ability to connect with people and projects in Southeast Alaska. To this point we serve as the backbone or administrative arm of the Sustainable Southeast Organization, a collective impact network of individuals and organizations in Southeast Alaska working to build resilient and prosperous communities. The Program Director is housed at Spruce Root and oversees the administration, coordination, and facilitation of all SSP events and related projects.

**CDFI (Community Development Financial Institution)** - Spruce Root is a certified Native Community Development Financial Institution. This designation opens up opportunities for funding and technical assistance to support the lending arm of the Organization. The CDFI program provides loans up to \$250,000 to small businesses in Southeast Alaska. The Organization’s target market includes Alaska Native owned businesses, and rural communities of Southeast Alaska.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of significant accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Spruce Root, Inc. and Seacoast Trust, LLC (collectively, the Organization). All inter-organization transactions and balances have been eliminated.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less at the date of purchase are reported as cash equivalents. Restricted cash consists of notes payable proceeds from organizations restricted for lending purposes.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants and Accounts Receivable

Grants and accounts receivable are unsecured and reported at the amount management expects to collect on balances outstanding at year-end. Grants and accounts receivable are written off when deemed uncollectible. Based on an assessment of the credit history and current relationships with those having outstanding balances, management has concluded that losses on balances outstanding at year-end will be immaterial. Grants receivable are expected to be collected within one year. Accounts receivable more than ninety days past due total approximately \$19,000 and \$11,000 at December 31, 2023 and 2022, respectively.

Property and Equipment

Acquisitions of furniture and equipment in excess of \$5,000 are capitalized. Property and equipment are recorded at cost and depreciated over the estimated useful lives of the respective assets on a straight-line basis. Assets with total cost of \$36,027 were fully depreciated as of December 31, 2020.

Loans Receivable

Loans receivable are held for investment and are stated at unpaid principal balances, reduced by an allowance for credit loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The Organization has elected to maintain pools of loans accounted for under Accounting Standards Codification (ASC) 310-30. The pools are identified as loans with or without guarantees. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructuring as of the date of adoption.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is a reduction to the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed.

Management estimates the allowance using relevant available information from internal and external sources relating to past events, current conditions, and reasonable supportable forecasts. Historical credit loss experiences provide the basis for the estimation of expected credit losses. Adjustment to historical loss information is made for differences in loan terms, collateral and other characteristics as well as changes in environmental conditions, such as unemployment rates, property values or other relevant factors.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Credit Losses – Loans (Continued)

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Organization has identified the following portfolio segments and measures the allowance for credit losses using the following method. Loans without guarantees are pooled together within a similar loan program. Historical loan credit losses are reviewed since inception of loan program; five previous years. Internal and external factors are considered based on Alaska state-wide unemployment rates.

Revenue Recognition

Revenues from various sources are recognized as follows:

**Contributions and Grants:** Contributions and grants, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

As of December 31, 2023, conditional contributions of approximately \$27,000 have not been recognized in the accompanying consolidated financial statements because the conditions on which it depends has not been met. The contributions are contingent on raising matching contributions. The Organization will recognize revenue when the conditions have been met.

**Government grants:** A portion of the Organization's revenue is derived from cost reimbursable contracts and grants, which are conditional upon certain performance requirements and/ or incurring allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as advances on government grants in the consolidated statement of financial position. CDFI advances received at December 31, 2023 and 2022 total \$479,444 and \$21,294, respectively, and are anticipated to be spent during 2024 for lending. Other advances totaling \$1,035,435 and \$517,107 at December 31, 2023 and 2022, respectively, relate to conditional grants.

The Organization has been awarded cost-reimbursable grants of approximately \$6,091,000 for the period through December 2028 that have not been recognized at December 31, 2023 because qualifying expenditures have not yet been incurred.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition, Continued

**Contract Revenue:** Fee for service arrangements are recognized when performance obligations have been met. Revenues from trainings and other events of approximately \$160,700 and \$146,600 for 2023 and 2022, respectively, are recognized in the period in which the programs and other activities occur. Contract receivables were approximately \$26,000, \$24,000, and \$152,000, respectively, for the years ended December 31, 2023, 2022, and 2021. There were no contract liabilities as of December 31, 2023, 2022, and 2021.

**Donated Assets and Services:** Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the time of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donation to a specific purpose.,

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

**Lending Program:** Interest income and loan service fees are recognized monthly for all loans receivable.

Income Tax Status

The Organization is organized for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and as a community development corporation under state law and is exempt from federal and state taxes. Accordingly, no provision for income taxes has been recorded. Spruce Root is not a private foundation.

Seacoast Trust, LLC is a limited liability company whereby Spruce Root is the sole member, making this a disregarded entity for tax purposes.

The Organization follows the provisions of FASB ASC *Topic 740 Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Functional Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and related expenses, professional fees, occupancy, office supplies, travel and training, miscellaneous expenses, which are allocated on the basis of estimates of employees' time incurred.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements. The reclassifications had no impact on previously reported net assets.

Adoption of New Accounting Standard

As of January 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 include loans receivable and accounts receivable. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments.

The Organization adopted this change in accounting principle as of the first day of 2023 using the modified retrospective method. Accordingly, financial information for periods prior to the date of initial application has not been adjusted.

Upon adoption of the new CECL guidance, the Organization recognized an allowance for credit losses of approximately \$60,000 and a decrease in net assets without donor restrictions of approximately \$60,000.

Subsequent Events

Spruce Root has evaluated all subsequent events through May 17, 2024, the date the consolidated financial statements were available to be issued.



SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

2. AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use.

Financial assets available for general expenditure consist of the following at December 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 5,307,633	\$ 19,597,500
Grants receivable	606,226	714,065
Accounts receivable	25,756	27,016
Loans receivable - current portion	148,852	427
Investments	23,154,270	-
	29,242,737	20,339,008
Less amounts unavailable for general expenditure:		
Cash with other restrictions	2,692,973	812,005
Net assets with donor restrictions	24,123,419	18,490,044
Financial assets available for general expenditure	\$ 2,426,345	\$ 1,036,959

3. LOANS RECEIVABLE

Loans receivable consist of 20 outstanding loans at December 31, 2023 and 14 outstanding loans at December 31, 2022. Interest rates range from 3.00%-8.75% and mature between December 2024 and December 2030. The loans are secured by real property.

The loans at December 31, 2023 and 2022 are reduced by an allowance for credit losses as follows:

	2023	2022
Loans receivable	\$ 1,470,296	\$ 775,620
Allowance for credit losses	(216,760)	(94,846)
	1,253,536	680,774
Less current portion	148,852	427
Loans receivable, net	\$ 1,104,684	\$ 680,347

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

3. LOANS RECEIVABLE, Continued

The change in the allowance for credit losses is as follows:

	<u>2023</u>	<u>2022</u>
Balance - beginning of year	\$ 94,846	\$ 66,759
Impact of adopting ASC 326	60,062	-
Credit loss expense	66,649	28,087
Loans charged-off	<u>(4,797)</u>	<u>-</u>
Balance - end of year	<u>\$ 216,760</u>	<u>\$ 94,846</u>

4. INVESTMENTS

Investments at December 31, 2023 are carried at fair value and consist of the following:

Money market funds	\$ 4,862,041
Mutual funds	2,912,766
Exchange-traded funds	3,448,339
Equity securities	6,345,021
Corporate bonds	3,481,598
Private equity	499,986
Limited partnerships	<u>1,604,519</u>
Total investments	<u>\$ 23,154,270</u>

The Organization invested its assets in accordance with the investment policies and objectives as described in Note 6. Substantially all investments are held for the long-term fund. See Note 6.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

5. NOTES PAYABLE

Outstanding borrowings for notes payable at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Note payable due to The Nature Conservancy. The outstanding principal balance is unsecured and due upon maturity December 2024. Interest due quarterly at net interest margin determined by loans receivable less allowable expenses. Net interest margin for 2023 was approximately 1.2% (approximately 2.7% in 2022).	\$ 461,271	\$ 461,271
Note payable due to U.S. Department of Agriculture for \$1 million. The outstanding principal balance is unsecured and interest of 1% payable in annual payments of \$16,756 through September 2049.	321,462	334,897
Note payable due to Tam Trust. Interest due quarterly at 3% and outstanding principal balance is unsecured and due at maturity September 2027.	100,000	100,000
Note payable due to Oweesta Corporation. Principal balance is unsecured and due quarterly in payments of \$12,500 plus accrued interest at 3% through maturity at March 2025.	75,000	100,000
Note payable due to Credit Builders Alliance. The outstanding principal balance is unsecured and interest of 3% payable in annual payments of approximately \$8,800 through December 2023. The note matured in December 2023.	-	8,581
Note payable due to Olamina Fund. Interest-only payments due quarterly at 2% and outstanding principal balance is unsecured and due at maturity September 2026.	500,000	-

*Continued*

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

5. NOTES PAYABLE, Continued

	2023	2022
Note payable due to Opportunity Finance Network. Interest-only payments due quarterly at 2% and outstanding principal balance is unsecured and due at maturity January 2028.	500,000	-
Note payable due to Oweesta Corporation. Four (4) interest-only payments at 3% due quarterly beginning January 2024, and sixteen (16) quarterly payments of approximately \$61,000 beginning January 2025, with a balloon payment of approximately \$700,000 at maturity October 2028. Secured by specific assets.	1,500,000	-
Total notes payable	3,457,733	1,004,749
Current portion	524,813	72,682
Long-term portion	\$ 2,932,920	\$ 932,067
		<i>Concluded</i>

The Organization is subject to certain financial and reporting covenants. The Organization was in compliance with its financial covenants at December 31, 2023.

Future maturities of the notes payable are as follows:

Year ending December 31, 2024	\$ 524,813
2025	240,463
2026	728,099
2027	318,237
2028	1,371,234
Thereafter	274,887
	\$ 3,457,733

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2023 and 2022:

	2023	2022
Loan fund	\$ 10,780	\$ 50,023
Loan loss reserve	170,000	170,000
Sustainable Southeast Partnership	93,626	141,915
Seacoast Trust long-term fund	23,629,495	18,125,667
Other purpose restricted	219,518	2,439
Total net assets with donor restrictions	\$ 24,123,419	\$ 18,490,044

Seacoast Trust long-term fund is required to be held and managed in compliance with Alaska's Uniform Prudent Management of Institutional Funds Act (UPMIFA) for a period of fifty years. In 2072, the restrictions will automatically be lifted and the entire fund and any earnings are free from restrictions.

Interpretation of Relevant Law

The Seacoast Trust long-term fund (the fund) is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted long-term funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Organization and the fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Organization, and
- (7) The investment policies of the Organization.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for the long-term fund assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the long-term fund assets. Under this policy, as approved by the Board of Directors, the long-term fund assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. Actual returns in any given year will vary from the benchmark.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

6. NET ASSETS WITH DONOR RESTRICTIONS, Continued

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). the Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Distributions are made at such time that the board approves distributions of earnings on the long-term fund. In establishing this policy, the Organization considered the long-term expected return on its fund that is consistent with the Organization's objective to maintain the purchasing power of the long-term assets held for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in the Seacoast Trust long-term fund for the years ended December 31, 2023 and 2022 are as follows:

	Long-term Contributions	Investment Return, net	Total
Balance December 31, 2021	\$ -	\$ -	\$ -
Contributions	18,123,093	-	18,123,093
Investment earnings	-	2,574	2,574
Balance December 31, 2022	18,123,093	2,574	18,125,667
Contributions	3,950,000	-	3,950,000
Investment earnings, net of fees	-	586,107	586,107
Change in value of investments	-	967,721	967,721
Balance December 31, 2023	<u>\$ 22,073,093</u>	<u>\$ 1,556,402</u>	<u>\$ 23,629,495</u>

The long-term fund is held as follows at December 31, 2023 and 2022:

	2023	2022
Investments	\$ 23,149,417	\$ -
Restricted cash	484,918	18,125,667
	23,634,335	18,125,667
Accrued expenses	(4,840)	-
	<u>\$ 23,629,495</u>	<u>\$ 18,125,667</u>

**SPRUCE ROOT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**December 31, 2023**

**7. CONTRIBUTED NONFINANCIAL ASSETS**

The Organization received the following contributions of nonfinancial assets for the years ended December 31, 2023 and 2022:

	2023	2022
Program: Occupancy	\$ 41,010	\$ 32,592
Program: Office supplies	16,315	12,966
Management: Occupancy	6,566	13,483
Management: Office supplies	2,612	5,364
Fundraising: Occupancy	3,112	4,613
Fundraising: Office supplies	1,238	1,835
Total donated facilities and materials	\$ 70,853	\$ 70,853

The Organization received the use of donated office space and office supplies from a related party. Donated space is recorded at fair value and is used to support programs and operations. Fair value for office space is based on current market rates and commercial listings for use of specific and comparable properties. Donated office supplies are recorded at fair value and are used to support programs and operations. Fair value is based on the current cost to acquire the supplies and the sales price of comparable supplies.

**8. RETIREMENT PLAN**

The Organization offers a 401(k) profit sharing plan for employees of Spruce Root and Seacoast Trust, LLC. Eligible employees may electively defer compensation after 90 days of consecutive service subject to Internal Revenue Code limitations. The Organization may make elective matching contributions and non-elective, discretionary contributions. Contributions to the plan for the years ended December 31, 2023 and 2022 totaled approximately \$41,900 and \$22,300, respectively.

**9. RELATED PARTY DISCLOSURES**

Certain board members are business owners in the community. At times, the Organization enters into transactions with companies where board members are key employees or owners. Several board members are employed with Sealaska Corporation who provided the Organization in-kind rent (See Note 7). In addition, approximately 13% and 45% of contributions received during the years ended December 31, 2023 and 2022, respectively, were from Sealaska Corporation.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

10. CONCENTRATIONS OF CREDIT RISK AND OTHER COMMITMENTS

The Organization maintains its cash balances in several financial institutions. The balances in each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$5 million and \$19.3 million as of December 31, 2023 and 2022, respectively.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

The Organization's revenues are concentrated with 44% of total revenues coming from four sources for the year ended December 31, 2023 (84% from two sources for the year ended December 31, 2022). The Organization's loans receivable are also concentrated within Alaska, and 65% are from 4 borrowers as of December 31, 2023 (70% of loans receivable from 3 borrowers in 2022).

11. CREDIT QUALITY OF FINANCING RECEIVABLES

Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with Spruce Root's policy. The Organization's internal loan risk rating scale is comprised of 7 grades. Each individual loan is given an internal risk rating from 1 through 7. Loans assigned higher risk ratings receive more frequent reviews. Changes in the risk rating for any loan must be approved by the Organization's board-appointed Loan Committee.

A brief description of these grades follows:

1. *Bankable (no apparent risk)*. Loans with very strong primary and secondary resources of repayment. These are loans to businesses with high liquidity and strong history of profitability.

2. *Very Strong (minimal risk)*. Loans with strong primary and secondary resources of repayment. Has most of the qualities of Risk Rating 1 except that certain aspects are not as strong such as lower liquidity or business cycles that pose additional risk.

3. *Strong (modest risk)*. Loans with moderate primary and secondary sources of repayment or weak primary and strong secondary sources of repayment. Companies with adequate liquidity and financial performance that compares favorably with industry standards. Earnings are good but have been subject to fluctuations that create a concern that certain conditions could cause repayment problems. These loans may be secured by assets, which are not easily converted to cash.



SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

II. CREDIT QUALITY OF FINANCING RECEIVABLES, Continued

4. *Moderate (acceptable risk)*. Assets assigned this rating are currently performing loans but have a well-developed weakness that if not corrected pose greater risk of loss. Loans graded "Moderate" require ongoing effort to ensure they do not become substandard.

5. *Weak/Start-Up*. Loans for which repayment is inadequately protected by the capacity of the borrower or the collateral pledged. These loans have a well-defined weakness that does jeopardize repayment of the loan. It is probable that the lender will sustain a loss if the weakness is not immediately corrected.

6. *Substandard/watch*: Doubtful loans have well defined weaknesses that make the collection and liquidation of the loan in full highly questionable and improbable. However, because some favorable pending factor has the potential to strengthen the asset and/or correct the problem, the action of recognizing the loss has been deferred to allow the event to occur. Such factors might be: merger, acquisition, capital injection, refinancing, liquidation procedures, perfecting liens, additional collateral, etc.

7. *Loss/problem asset*: Assets classified as loss are considered uncollectible and hold no value.

Management identified and graded Spruce Root loans as of December 31, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
3 - Strong	\$ 403,373	\$ -
4 - Moderate	223,416	238,340
5 - Weak/start-up	407,483	537,280
6 - Watch	436,024	-
	<u>\$ 1,470,296</u>	<u>\$ 775,620</u>

Spruce Root management reviews credit quality indicators for performance and appropriateness of risk ratings as part of the evaluation process for the allowance for credit losses. Management and the Board of Directors believe the Organization's portfolio is adequately collateralized and that the allowance for credit losses is adequate based on Spruce Root's loss history and the current risk assessments.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

12. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the consolidated statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Not included in the fair value measurement hierarchy are investments measured at net asset value (NAV).

Fair values of assets and liabilities measured on a recurring basis at December 31, 2023 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>December 31, 2023</b>				
Money market funds	\$ 4,862,041	\$ 4,862,041	\$ -	\$ -
Mutual funds:				
Equity	2,555,980	2,555,980	-	-
Fixed income	356,786	356,786	-	-
Exchange-traded funds:				
Equity	2,844,081	2,844,081	-	-
Fixed income	604,258	604,258	-	-
Equity securities	6,345,021	6,345,021	-	-
Corporate bonds	3,481,598	-	3,481,598	-
	<u>21,049,765</u>	<u>17,568,167</u>	<u>3,481,598</u>	<u>-</u>
Investments measured at NAV	<u>2,104,505</u>			
Total investments	<u>\$ 23,154,270</u>			

Fair values for investments in money market funds, mutual funds and marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for investments in corporate bonds are provided by custodians and are based on pricing models that incorporate available trade, bid and other market information.

SPRUCE ROOT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
December 31, 2023

12. FAIR VALUE MEASUREMENTS, Continued

Investments Measured at Net Asset Value (NAV)

Quoted market prices are not available for the limited partnerships and real estate fund. These investments are recorded based on the net asset value of the Organization's ownership interest in the partners' capital which includes assumptions and methods that were prepared by the General Partners and managers of the entity and were reviewed by Organization's management. The Organization believes that the reported amount for these investments is a reasonable estimate of their fair value at December 31, 2023. The reported net asset value may differ from the value that would be used had the quoted market price existed.

13. CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no significant amounts received or receivable will be required to be returned in the future.

14. COMMITMENTS

The Organization has signed various contractual commitments through 2024 with contractual maximums totaling approximately \$400,000. Payments are over time and based on performance obligations of the contractor.

## CONSOLIDATING INFORMATION

INDEPENDENT AUDITOR'S REPORT  
ON CONSOLIDATING INFORMATION

To the Board of Directors  
Spruce Root, Inc.

We have audited the consolidated financial statements of Spruce Root, Inc. and Seacoast Trust, LLC as of and for the year ended December 31, 2023, and have issued our report thereon dated May 17, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I and II is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*McDonald Jacobs, P.C.*

Portland, Oregon  
May 17, 2024

**SPRUCE ROOT, INC.**  
**AND SEACOAST TRUST LLC**  
**SCHEDULE I**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**December 31, 2023**

	Spruce Root, Inc.	Seacoast Trust, LLC	Eliminating Entries	Consolidated Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,129,742	\$ -	\$ -	\$ 2,129,742
Restricted cash	2,692,973	484,918	-	3,177,891
Grants receivable	606,226	-	-	606,226
Accounts receivable	44,805	-	-	44,805
Prepaid expenses and other assets	30,548	-	-	30,548
Loans receivable, net	1,253,536	-	-	1,253,536
Investments	4,853	23,149,417	-	23,154,270
 TOTAL ASSETS	 \$ 6,762,683	 \$ 23,634,335	 \$ -	 \$ 30,397,018
 <b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 444,955	\$ 4,840	\$ -	\$ 449,795
Interest payable	2,255	-	-	2,255
Advances on government grants	1,514,879	-	-	1,514,879
Notes payable	3,457,733	-	-	3,457,733
Total liabilities	5,419,822	4,840	-	5,424,662
Net assets:				
Without donor restrictions	848,936	-	-	848,936
With donor restrictions	493,925	23,629,495	-	24,123,420
Total net assets	1,342,861	23,629,495	-	24,972,356
 TOTAL LIABILITIES AND NET ASSETS	 \$ 6,762,683	 \$ 23,634,335	 \$ -	 \$ 30,397,018

See independent auditor's report on consolidating information.

SPRUCE ROOT, INC.  
AND SEACOAST TRUST, LLC  
SCHEDULE II  
CONSOLIDATING STATEMENT OF ACTIVITIES  
For the year ended December 31, 2023

Change in net assets without donor restrictions:	Spruce Root, Inc.	Seacoast Trust, LLC	Eliminating Entries	Consolidated Total
Support and revenue:				
Grants	\$ 3,001,590	\$ -	\$ -	\$ 3,001,590
Contributions	510,501	-	-	510,501
Contract revenue	160,677	-	-	160,677
In-kind contributions	70,853	-	-	70,853
Lending program, net credit loss expense of \$66,649 for 2023 and \$28,087 for 2022	59,591	-	-	59,591
Other revenue	74,642	-	-	74,642
Net assets released from restrictions:				
Satisfaction of purpose restrictions	270,839	42,333	-	313,172
Total support and revenue	<u>4,148,693</u>	<u>42,333</u>	<u>-</u>	<u>4,191,026</u>
Expenses:				
Program services	3,193,498	-	-	3,193,498
Management and general	504,663	42,333	-	546,996
Fundraising	261,787	-	-	261,787
Total expenses	<u>3,959,948</u>	<u>42,333</u>	<u>-</u>	<u>4,002,281</u>
Change in net assets without donor restrictions	<u>188,745</u>	<u>-</u>	<u>-</u>	<u>188,745</u>
Change in net assets with donor restrictions:				
Revenue:				
Contributions	400,387	3,965,200	-	4,365,587
Investment income, net	-	1,580,961	-	1,580,961
Net assets released from restrictions:				
Satisfaction of purpose restrictions	(270,839)	(42,333)	-	(313,172)
Change in net assets with donor restrictions	<u>129,548</u>	<u>5,503,828</u>	<u>-</u>	<u>5,633,376</u>
Change in net assets	318,293	5,503,828	-	5,822,121
Net assets - beginning of year	1,084,630	18,125,667	-	19,210,297
Change in accounting policy - Increase in allowance for credit losses	<u>(60,062)</u>	<u>-</u>	<u>-</u>	<u>(60,062)</u>
Net assets - end of year	<u>\$ 1,342,861</u>	<u>\$ 23,629,495</u>	<u>\$ -</u>	<u>\$ 24,972,356</u>

See independent auditor's report on consolidating information.