

Combined Financial Statements and
Report of Independent Certified Public Accountants

ROOT CAPITAL, INC.

December 31, 2018 and 2017

ROOT CAPITAL, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors **Root Capital, Inc.**

We have audited the accompanying combined financial statements of Root Capital Inc., which comprise the combined statements of financial position as of December 31, 2018 and 2017, 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.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Root Capital, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
April 25, 2019

ROOT CAPITAL, INC.
Combined Statements of Financial Position
As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 39,265,683	\$ 36,692,544
Escrow funds held for others	91,345	4,470,218
Short-term investment	258,862	210,885
Loans receivable, net (Notes 3 and 4)	39,464,628	53,719,993
Collateral dependent impaired loans receivable, net (Notes 3 and 4)	2,748,145	2,615,913
Interest receivable, net (Note 4)	956,897	1,245,015
Grants and pledges receivable, net (Note 6)	3,088,061	2,693,118
Guarantees receivable	2,999,982	2,053,152
Prepaid expenses and other assets	581,441	638,511
Property, equipment and leasehold improvements, net	1,141,275	804,067
Security deposits	<u>262,471</u>	<u>178,795</u>
Total assets	<u>\$ 90,858,790</u>	<u>\$ 105,322,211</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 831,169	\$ 537,459
Notes payable (Note 5)	62,904,541	73,181,749
Subordinated debt (Note 5)	7,412,120	9,156,000
Escrow funds held for others	91,345	4,470,218
Accrued interest payable	790,843	988,431
Fair value of foreign currency hedges (Note 14)	3,833	242,507
Other liabilities	<u>3,106,132</u>	<u>495,716</u>
Total liabilities	<u>75,139,983</u>	<u>89,072,080</u>
NET ASSETS		
Without donor restrictions	11,134,002	10,654,322
With donor restrictions - purpose or time (Note 8)	<u>4,584,805</u>	<u>5,595,809</u>
Total net assets	<u>15,718,807</u>	<u>16,250,131</u>
Total liabilities and net assets	<u>\$ 90,858,790</u>	<u>\$ 105,322,211</u>

The accompanying notes are an integral part of these combined financial statements.

ROOT CAPITAL, INC.
Combined Statements of Activities
For the year ended December 31, 2018 (with summarized comparative information
for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
OPERATING REVENUE				
Earned revenue				
Loan interest	\$ 4,257,370	\$ -	\$ 4,257,370	\$ 6,346,426
Loan fees	1,125,390	-	1,125,390	1,105,997
Provision for loan loss	(4,239,179)	-	(4,239,179)	(3,708,100)
Management fees - loan services	301,023	-	301,023	456,086
Fee-for-service revenue	305,727	-	305,727	514,405
Foreign currency translation (Note 14)	39,914	-	39,914	135,341
Other revenue	56,214	-	56,214	-
Net earned operating revenue	<u>1,846,459</u>	<u>-</u>	<u>1,846,459</u>	<u>4,850,155</u>
Financial revenue (expense)				
Interest and investment income (Note 9)	230,701	-	230,701	114,286
Interest expense	(1,759,365)	-	(1,759,365)	(1,974,977)
Net financial expense	<u>(1,528,664)</u>	<u>-</u>	<u>(1,528,664)</u>	<u>(1,860,691)</u>
Net earned and financial revenue	317,795	-	317,795	2,989,464
Contributions and grants	6,766,290	7,302,453	14,068,743	11,510,918
In-kind contributions	143,843	-	143,843	198,226
Net assets released from donor restrictions	8,313,457	(8,313,457)	-	-
Total operating revenue	<u>15,541,385</u>	<u>(1,011,004)</u>	<u>14,530,381</u>	<u>14,698,608</u>
OPERATING EXPENSES				
Program services				
Finance	6,521,540	-	6,521,540	6,007,152
Advise	3,624,158	-	3,624,158	2,500,967
Catalyze	1,608,710	-	1,608,710	1,579,606
Total program services	<u>11,754,408</u>	<u>-</u>	<u>11,754,408</u>	<u>10,087,725</u>
Supporting services				
Management and general	2,384,891	-	2,384,891	2,359,110
Fundraising	922,406	-	922,406	976,741
Total supporting services	<u>3,307,297</u>	<u>-</u>	<u>3,307,297</u>	<u>3,335,851</u>
Total operating expenses	<u>15,061,705</u>	<u>-</u>	<u>15,061,705</u>	<u>13,423,576</u>
Changes in net assets	479,680	(1,011,004)	(531,324)	1,275,032
Net assets at beginning of year	<u>10,654,322</u>	<u>5,595,809</u>	<u>16,250,131</u>	<u>14,975,099</u>
Net assets at end of year	<u>\$ 11,134,002</u>	<u>\$ 4,584,805</u>	<u>\$ 15,718,807</u>	<u>\$ 16,250,131</u>

The accompanying notes are an integral part of these combined financial statements.

ROOT CAPITAL, INC.
Combined Statement of Activities
For the year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2017 Total</u>
OPERATING REVENUE			
Earned revenue			
Loan interest	\$ 6,346,426	\$ -	\$ 6,346,426
Loan fees	1,105,997	-	1,105,997
Provision for loan loss	(3,708,100)	-	(3,708,100)
Management fees - loan services	456,086	-	456,086
Fee-for-service revenue	514,405	-	514,405
Foreign currency translation (Note 14)	<u>135,341</u>	<u>-</u>	<u>135,341</u>
Net earned operating revenue	<u>4,850,155</u>	<u>-</u>	<u>4,850,155</u>
Financial revenue (expense)			
Interest and investment income (Note 9)	114,286	-	114,286
Interest expense	<u>(1,974,977)</u>	<u>-</u>	<u>(1,974,977)</u>
Net financial expense	<u>(1,860,691)</u>	<u>-</u>	<u>(1,860,691)</u>
Net earned and financial revenue	2,989,464	-	2,989,464
Contributions and grants	3,754,668	7,756,250	11,510,918
In-kind contributions	198,226	-	198,226
Net assets released from donor restrictions	<u>6,536,925</u>	<u>(6,536,925)</u>	<u>-</u>
Total operating revenue	<u>13,479,283</u>	<u>1,219,325</u>	<u>14,698,608</u>
OPERATING EXPENSES			
Program services			
Finance	6,007,152	-	6,007,152
Advise	2,500,967	-	2,500,967
Catalyze	<u>1,579,606</u>	<u>-</u>	<u>1,579,606</u>
Total program services	<u>10,087,725</u>	<u>-</u>	<u>10,087,725</u>
Supporting services			
Management and general	2,359,110	-	2,359,110
Fundraising	<u>976,741</u>	<u>-</u>	<u>976,741</u>
Total supporting services	<u>3,335,851</u>	<u>-</u>	<u>3,335,851</u>
Total operating expenses	<u>13,423,576</u>	<u>-</u>	<u>13,423,576</u>
Changes in net assets	55,707	1,219,325	1,275,032
Net assets at beginning of year	<u>10,598,615</u>	<u>4,376,484</u>	<u>14,975,099</u>
Net assets at end of year	<u>\$ 10,654,322</u>	<u>\$ 5,595,809</u>	<u>\$ 16,250,131</u>

The accompanying notes are an integral part of this combined financial statement.

ROOT CAPITAL, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2018

	Program Services			Supporting Services			Total Supporting Services	Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising		
Personnel	\$ 4,283,306	\$ 951,765	\$ 1,025,460	\$ 6,260,531	\$ 1,627,167	\$ 677,827	\$ 2,304,994	\$ 8,565,525
Professional services	814,157	1,183,495	218,165	2,215,817	288,738	82,305	371,043	2,586,860
Travel, conferences, and workshops	293,248	808,491	128,785	1,230,524	32,624	41,937	74,561	1,305,085
Occupancy and telecommunications	582,115	127,929	99,609	809,653	153,682	74,019	227,701	1,037,354
Other direct costs	<u>548,714</u>	<u>552,478</u>	<u>136,691</u>	<u>1,237,883</u>	<u>282,680</u>	<u>46,318</u>	<u>328,998</u>	<u>1,566,881</u>
Total	<u>\$ 6,521,540</u>	<u>\$ 3,624,158</u>	<u>\$ 1,608,710</u>	<u>\$ 11,754,408</u>	<u>\$ 2,384,891</u>	<u>\$ 922,406</u>	<u>\$ 3,307,297</u>	<u>\$ 15,061,705</u>

The accompanying notes are an integral part of this combined financial statement.

ROOT CAPITAL, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2017

	Program Services			Supporting Services			Total Supporting Services	Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising		
Personnel	\$ 4,080,412	\$ 829,680	\$ 994,443	\$ 5,904,535	\$ 1,545,278	\$ 693,955	\$ 2,239,233	\$ 8,143,768
Professional services	652,375	956,688	291,286	1,900,349	301,865	128,590	430,455	2,330,804
Travel, conferences, and workshops	302,747	548,708	110,861	962,316	65,611	39,122	104,733	1,067,049
Occupancy and telecommunications	497,645	112,814	127,276	737,735	172,740	77,106	249,846	987,581
Other direct costs	<u>473,973</u>	<u>53,077</u>	<u>55,740</u>	<u>582,790</u>	<u>273,616</u>	<u>37,968</u>	<u>311,584</u>	<u>894,374</u>
Total	<u>\$ 6,007,152</u>	<u>\$ 2,500,967</u>	<u>\$ 1,579,606</u>	<u>\$ 10,087,725</u>	<u>\$ 2,359,110</u>	<u>\$ 976,741</u>	<u>\$ 3,335,851</u>	<u>\$ 13,423,576</u>

The accompanying notes are an integral part of this combined financial statement.

ROOT CAPITAL, INC.
Combined Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (531,324)	\$ 1,275,033
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	113,549	92,068
Provision for loan loss	4,239,179	3,708,100
Provision for interest loss	466,841	144,875
Loss on sale of investments	(47,977)	(4,937)
Rent abatement liability	3,260	(6,243)
Present value discount on grants and pledges	(15,047)	(17,133)
Unrealized and realized losses on foreign currency (Note 14)	(39,914)	(135,341)
Contributions converted from debt	(1,750,000)	(718,622)
(Increase) decrease in		
Interest receivable	(178,723)	(165,673)
Grants and pledges receivable	(379,896)	(358,396)
Guarantees and other receivables	(946,830)	(1,109,936)
Prepaid expenses and other assets	57,071	217,653
Security deposits	(83,676)	(1,613)
Increase (decrease) in		
Accounts payable and accrued expenses	473,711	13,621
Other liabilities	<u>2,607,156</u>	<u>(147,860)</u>
Net cash provided by operating activities	<u>3,987,380</u>	<u>2,785,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and leasehold improvements	(450,759)	(391,290)
Principal payments and recoveries on loans receivable	106,742,910	133,432,637
Issuance of loans	<u>(97,057,716)</u>	<u>(119,781,235)</u>
Net cash provided by investing activities	<u>9,234,435</u>	<u>13,260,112</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(19,285,676)	(15,449,135)
Proceeds from issuance of notes payable	<u>8,637,000</u>	<u>9,954,000</u>
Net cash used in financing activities	<u>(10,648,676)</u>	<u>(5,495,135)</u>
Net increase in cash and cash equivalents	2,573,139	10,550,573
Cash and cash equivalents at the beginning of year	<u>36,692,544</u>	<u>26,141,971</u>
Cash and cash equivalents at the end of year	<u>\$ 39,265,683</u>	<u>\$ 36,692,544</u>
Supplemental cash flow information		
Interest paid	\$ 1,791,914	\$ 1,886,097

The accompanying notes are an integral part of these combined financial statements.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND BASIS OF ORGANIZATION

Nature of Operations

Root Capital, Inc. is a non-profit, social investment organization that grows rural prosperity in poor, environmentally vulnerable places 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, Inc. operates the following programs:

Finance: Root Capital, Inc. provides loans ranging generally from \$50,000 to \$3 million to rural small and growing businesses, with a particular focus on those businesses that are currently not reached by commercial lenders. Most of Root Capital, Inc.'s loans can be categorized as one of the following:

- Lines of credit, which are used by borrowers to cover costs of purchasing raw product from their farm suppliers. These lines of credit have terms of up to one year and are generally oriented around a harvest or production cycle.
- Fixed-asset loans with terms of up to seven years for investment in equipment and infrastructure.
- General working capital loans with terms from one to seven years.

Advise: The Financial Advisory Services 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. Financial Advisory Services 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, Inc. 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.

Basis of Organization

Root Capital, Inc. combines its financial results with Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural ("ACCDER"), based in Lima, Peru, which was incorporated on September 22, 2011, Root Capital, Mexico A.C., a non-profit civil association that was incorporated on December 4, 2012 and has received tax exempt recognition from Mexican tax authorities, and Root Capital Guatemala A.C., which was incorporated on July 31, 2015 as a civil association. Root Capital also has field offices in Costa Rica, Senegal, and Kenya.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined financial statements are presented on the accrual basis of accounting, and represent the combined activity of Root Capital, Inc., ACCDER, Root Capital Mexico A.C., and Root

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
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Capital Guatemala A.C., together “Root Capital.” All intercompany transactions have been eliminated in combination.

Cash and Cash Equivalents

Root Capital considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. During the periods presented, Root Capital maintained adequate cash to meet liquidity-related covenants.

Root Capital held \$191,101 and \$461,102 of USD and foreign currency cash and cash equivalents at financial institutions in foreign countries at December 31, 2018 and 2017, respectively. The majority of funds on deposit in foreign countries are uninsured. Remaining cash balances were held at financial institutions in the United States and are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per institution. Cash balances not insured by the FDIC were \$39,107,028 and \$40,662,762 at December 31, 2018 and 2017, respectively.

Escrow Funds

As a condition of certain tripartite lending agreements and servicing agreements, Root Capital holds in escrow short-term funds in accordance with the terms of these agreements.

Short-term Investment

The short-term investment consists of a mutual fund that invests primarily in money market instruments and short term, fixed income securities, and is recorded at its readily determinable fair value. Realized and unrealized gains and losses on this short term investment are included in investment income in the accompanying Combined Statements of Activities.

Loans Receivable and Allowance for Loan Losses (including collateral dependent impaired loans receivable)

Loans receivable are presented 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 context. 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.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Root Capital – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Root Capital does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
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Grants and Pledges Receivable

Grants and pledges receivable represent amounts due from donors and are stated at their net present value (discounted value of grants and pledges). 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 statement of financial position.

Property, Equipment and Leasehold Improvements

Root Capital records purchased property and equipment with an acquisition value of \$5,000 or more at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, generally three years (certain software) to five years (furniture and equipment). Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Income Taxes

Root Capital follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the combined financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Root Capital is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Root Capital has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. Root Capital has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, Root Capital has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

ACCDER, Root Capital Mexico A.C., and Root Capital Guatemala A.C. are organized and operated under the regulations of their respective countries, Peru, Mexico and Guatemala. Root Capital Mexico A.C. is a registered charitable organization in Mexico. Root Capital Guatemala A.C. is a registered charitable organization in Guatemala.

Revenue Recognition

Contributions and grants with donor restrictions and without donor restrictions are recorded as revenue in the year notification is received from the donor.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
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Contributions and grants with donor restrictions are recognized as without donor restriction support only to the extent that actual expenses are incurred in accordance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants with donor restrictions received in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying combined financial statements.

Revenue from interest on loans is recognized using the straight-line method based on fixed interest rates. Revenue from investment income is recognized using the effective interest method. Loan origination costs, net of origination fees, are amortized over the life of the associated loans.

Operating Revenue and Expenses

Revenue from operations includes earned revenue from lending-related activities, contributions and grants, fee-for-service, and in-kind contributions. Lending-related activities include loan disbursements and repayments, servicing fees, and miscellaneous bank charges and interest. Operating expenses include direct program expenses and supporting services expenses as reported on the Combined Statement of Functional Expenses.

Net Asset Classification

The net assets are reported as follows:

Without donor restrictions are those net resources that bear no donor restrictions. Net assets that are without donor restrictions, also referred to as Lending Net Assets, are a key input in the measure of the debt to equity ratio that is included in covenants with various investors.

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

In-kind Contributions

Root Capital receives in-kind contributions in support of the organization's operating and programmatic activities. In-kind contributions consist primarily of legal services, and are recorded at fair value as of the date of the services provided as in-kind services revenue and as operating expense in the Combined Statement of Functional Expenses.

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. Significant estimates include the loan loss allowance and fair value of foreign currency contracts.

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

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2018 and 2017

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.

Implementation of Accounting Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting.

Root Capital adopted ASU 2016-14 effective January 2018 and applied the changes retrospectively. As a result of the adoption of ASU 2016-14, Root Capital was required to reclassify its net assets into two categories: net assets without donor restrictions and net assets with donor restrictions. In addition, the guidance requires enhanced disclosures about liquidity and expenses by both their natural expense and functional classification among other changes

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 outlines single comprehensive standard for revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2018. Root Capital is currently evaluating the effect of adoption to the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. Root Capital is currently evaluating the effect of adoption to the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (CECL)*. The new guidance (and all subsequent ASUs) replaces the existing incurred loss impairment guidance with an expected credit loss methodology. The new guidance will require management’s estimate of credit losses over the full remaining expected life of loans and other financial instruments. The standard is effective for fiscal years beginning after December 15, 2020. Root Capital will adopt the guidance on January 1, 2021. Upon adoption, Root Capital will record a cumulative-effect adjustment to net assets without donor restriction as of the beginning of the reporting period of adoption. Management is in the process of determining the magnitude of the impact on its financial statements.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2018 and 2017

3. LOANS RECEIVABLE AND COLLATERAL DEPENDENT IMPAIRED LOANS RECEIVABLE

Following is a summary of Root Capital's loans receivable and collateral dependent impaired loans receivable as of December 31:

	2018		
	Number of Loans	Outstanding Principal	Loan Loss Allowance
Loans receivable	131	\$ 47,090,478	\$ 7,882,827
Collateral dependent impaired loans receivable	<u>16</u>	<u>5,009,397</u>	<u>2,261,252</u>
Total loans receivable	<u>147</u>	<u>\$ 52,099,875</u>	<u>\$ 10,144,079</u>
	2017		
	Number of Loans	Outstanding Principal	Loan Loss Allowance
Loans receivable	153	\$ 60,684,102	\$ 7,172,030
Collateral dependent impaired loans receivable	<u>14</u>	<u>4,761,620</u>	<u>2,145,707</u>
Total loans receivable	<u>167</u>	<u>\$ 65,445,722</u>	<u>\$ 9,317,737</u>

The five largest outstanding loans receivable were 28% of the portfolio as of December 31, 2018 and 2017. The average outstanding loan balance at December 31, 2018 was \$397,709. The average outstanding loan balance at December 31, 2017 was \$391,891.

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

Year Ending December 31,	
2019	\$ 36,617,362
2020	2,061,597
2021	10,641,362
2022 and thereafter	<u>2,779,554</u>
	52,099,875
Less: allowance for loan losses (Note 3)	(10,144,079)
Deferred loan origination costs, net of origination fees	<u>256,977</u>
Net loan receivable	<u>\$ 42,212,773</u>

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Root Capital makes loans in foreign currencies subject to various limitations, to accommodate clients whose products are not exported and who do not have access to U.S. currency. The portfolio includes loans made in several foreign currencies as listed below with the U.S. Dollar (\$) equivalent as of December 31:

<u>Currency</u>	<u>2018</u>	<u>2017</u>
U.S Dollar	\$ 50,775,152	\$ 62,573,493
Euro	323,540	1,784,237
Ghanaian Cedi	253,538	210,337
Kenyan Shilling	251,613	382,448
Mexican Peso	496,032	495,207
Total loans receivable	<u>\$ 52,099,875</u>	<u>\$ 65,445,722</u>

Guarantee Agreements

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

<u>Guarantor and Facility</u>	<u>Amount of Obligation</u>	<u>Term of Coverage</u>	<u>Outstanding Loan Balances</u>	<u>Claims in 2018</u>	<u>Claims in 2017</u>
USAID Development Credit Authority 50% Maximum Guarantee Facility (40% for loans approved after 9/30/2011) for SME Agribusiness in Select LA/African Countries	Maximum obligations of \$5,542,500	Through March 2020	\$ 1,579,077	\$ 68,644	\$ 107,037
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of \$6,250,000	Through September 2019	9,212,794	165,078	-
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	2,168,812	-	-
USAID Development Credit Authority 50% Maximum Guarantee Facility Madagascar Loan Guarantee	Maximum obligations of \$500,000	Through September 2019	1,000,000	-	-

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Loan Participation

Root Capital enters into loan participation agreements with third-parties who wish to enter the impact investing space. Root Capital continues to service the participating interests acquired by those third parties for an agreed upon servicing fee. Total loan participation sales were \$6,432,782 and \$6,020,500 in 2018 and 2017, respectively and are reflected as a reduction of loans receivable.

4. ALLOWANCE FOR LOAN LOSSES

Impaired Loans

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

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

Root Capital's delinquency classification methodology can be summarized as follows:

Loans with payments due in full at maturity

- Loans are downgraded to Special Mention at 30 days past maturity;
- Loans are downgraded to Substandard when they are at least 90 days past maturity and no payment has been received in 90 days;
- Loans are downgraded to Doubtful when they are at least 180 days past maturity and no payment has been received in 180 days;
- Loans are written off when they are at least 270 days past maturity and no payment has been received in 270 days.

Loans with amortization schedules and/or scheduled interest payments

- Loans are downgraded to Special Mention at 30 days since the last scheduled payment;
- Loans are downgraded to Substandard at 90 days since the last scheduled payment;
- Loans are downgraded to Doubtful at 270 days since the last scheduled payment;
- Loans are written off at 360 days since the last scheduled payment.

Restructured loans

- Loans are downgraded to Special Mention at 30 days since the last scheduled payment;
- Loans are downgraded to Substandard at 90 days since the last scheduled payment;
- Loans are downgraded to Doubtful at 180 days since the last scheduled payment;
- Loans are written off at 270 days since the last scheduled payment.

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Non-Accrual and Write-off

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, nor does it change the interest rate. Scheduled payments of loans on non-accrual status are applied to accrued interest and principal obligations. 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 at least annually. Loans in the Current pool use a general reserve rate that is adjusted based on whether the loan is secured with collateral or not secured. 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. Collateral dependent loans are impaired loans with an outstanding principal balance greater than \$100,000 and whose repayment is expected solely from the liquidation of the underlying collateral. In calculating the allowance for loan losses, Root Capital includes only hard collateral, which consists of real estate, equipment and machinery. Although Root Capital obtains other types of collateral such as inventory and trade receivables, those types of collateral are generally more difficult to track and assign value, therefore management has excluded them from the calculation of the allowance for loan losses.

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

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The following rates were effective as of December 31, 2018 and 2017 (shown prior to the application of guarantees):

Loan Pool	Allowance Rate Secured	Unsecured
Current	1.8%	2.4%
Large, secured, impaired		
Current restructure	0% to 16%	N/A
Special mention	0% to 50%	N/A
Substandard	0% to 83%	N/A
Doubtful	0% to 89%	N/A
Other impaired		
Current restructure	11%	14%
Special mention	35%	46%
Substandard	57%	75%
Doubtful	62%	81%
Collateral dependent	Based on collateral value	N/A

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

	2018	2017
Balance, beginning of year	\$ 9,317,737	\$ 10,743,974
Write-offs	(5,579,907)	(7,160,153)
Recoveries	2,167,070	2,025,816
Provision for loan losses	<u>4,239,179</u>	<u>3,708,100</u>
Balance, end of year	<u><u>\$ 10,144,079</u></u>	<u><u>\$ 9,317,737</u></u>

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Summary of loan risk composition as of December 31:

	2018			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Current	\$ 31,110,811	60 %	\$ 700,652	7 %
Current restructured	3,083,748	6	263,646	3
Special mention	6,905,985	13	2,893,827	29
Substandard	4,161,898	8	2,612,422	26
Doubtful	1,828,036	3	1,412,280	13
Collateral dependent	<u>5,009,397</u>	<u>10</u>	<u>2,261,252</u>	<u>22</u>
Total	<u>\$ 52,099,875</u>	<u>100 %</u>	<u>\$ 10,144,079</u>	<u>19 %</u>
	2017			
	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Current	\$ 38,452,864	58 %	\$ 898,976	2 %
Current restructured	8,723,451	14	855,677	10
Special mention	7,617,187	12	1,908,305	25
Substandard	3,986,017	6	2,263,580	57
Doubtful	1,904,583	3	1,245,492	65
Collateral dependent	<u>4,761,620</u>	<u>7</u>	<u>2,145,707</u>	<u>45</u>
Total	<u>\$ 65,445,722</u>	<u>100 %</u>	<u>\$ 9,317,737</u>	<u>14 %</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).

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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:

2018 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Current	\$ 3,083,748	19 %	\$ 263,646
Special mention	5,289,045	32	2,295,096
Substandard	3,396,542	21	2,044,517
Doubtful	1,177,564	7	889,533
Collateral dependent	3,497,011	21	1,554,272
Total	\$ 16,443,910	100 %	\$ 7,047,064

2017 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Current	\$ 8,723,451	47 %	\$ 855,677
Special mention	4,825,181	26	806,881
Substandard	1,950,696	11	1,163,251
Doubtful	666,859	4	311,592
Collateral dependent	2,299,234	12	776,646
Total	\$ 18,465,421	100 %	\$ 3,914,047

Guarantees and Recoveries

As previously disclosed in Note 3, certain loans issued by Root Capital are guaranteed fully or partially by third parties such as USAID's Development Credit Authority (DCA). A guarantee receivable is established upon write-off of the guaranteed loan. Other recoveries that are not related to guarantees are recognized on a cash basis. All recoveries are presented as a reduction to gross write-offs. The following is a breakdown of total recoveries recognized as of December 31:

	2018	2017
Recoveries		
USAID DCA Guarantees	\$ 1,219,750	\$ 1,367,890
Other	947,320	657,926
Total	\$ 2,167,070	\$ 2,025,816

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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 \$711,207 and \$365,925 as of December 31, 2018 and 2017, respectively.

5. NOTES PAYABLE, SUBORDINATED DEBT & LINES OF CREDIT

Notes Payable

Root Capital had 273 and 274 outstanding notes payable as of December 31, 2018 and 2017, respectively. The notes mature at various dates from 2019 to 2028 and are unsecured.

Subordinated Debt

As of December 31, 2018, there is \$7,412,120 of subordinated debt from eight investors. One of the subordinated notes for \$600,000 has a convertibility feature such that the debt is convertible to contribution revenue in the event of default or at the discretion of the investor. Included in notes payable as of December 31, 2017 is \$9,156,000 of subordinated debt from eight investors. Interest payments are due annually on the subordinated debt, with lump-sum payments of principal due on or before the maturity dates between November 2019 and October 2026. The notes are subordinate to all senior creditors.

The following is a summary of all notes payable including subordinated debt as of December 31:

Investor	2018	2017
	Outstanding Principal	Outstanding Principal
Corporation	\$ 11,000,000	\$ 16,150,000
Foundation	22,055,111	22,541,249
Government/Multilateral	15,260,000	19,620,000
Individual	17,239,050	17,576,500
Other	<u>4,762,500</u>	<u>6,450,000</u>
	<u>\$ 70,316,661</u>	<u>\$ 82,337,749</u>
	2018	2017
Top Five Investors	Outstanding Principal	Outstanding Principal
1	\$ 14,000,000	\$ 18,000,000
2	10,000,000	15,000,000
3	10,000,000	10,000,000
4	2,000,000	2,300,000
5	2,000,000	2,000,000
All other investors	<u>32,316,661</u>	<u>35,037,749</u>
	<u>\$ 70,316,661</u>	<u>\$ 82,337,749</u>

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As of December 31, 2018 maturities on the outstanding principal of the notes payable were as follows:

Year Ending December 31,	
2019	\$ 12,329,491
2020	16,794,550
2021	5,165,500
2022	23,525,000
2023 and thereafter	<u>12,502,120</u>
	<u>\$ 70,316,661</u>

Debt agreements contain various covenants that require Root Capital to maintain certain financial ratios. Those covenants place restrictions on Root Capital's activities including its ability to secure debt investment and lending funds. The most common financial covenant is a debt to equity ratio of 5:1 which includes grant funded net assets and long-term subordinated debt in the calculation of equity as outlined in the debt agreements with those lenders.

As of December 31, 2018, the portfolio-at-risk as defined by the covenant with two investors was 21%, against a covenant threshold maximum of 20%. Root Capital obtained waivers from both of the investors. There was no impact to any of the other existing covenants.

Lines of Credit

Root Capital employs lines of credit to meet seasonal demand to agricultural borrowers and as a reserve to meet loan demand. As of December 31, 2018, the total commitment of the lines of credit was \$6,000,000. The lines of credit are unsecured. As of December 31, 2018 and December 31, 2017, all lines of credit were unutilized. Interest expense was incurred on the lines of credit totaling \$8,233 in 2018 and \$49,294 in 2017.

6. GRANTS AND PLEDGES RECEIVABLE

As of December 31, grants and pledges receivable were due as follows:

	<u>2018</u>	<u>2017</u>
One year or less	\$ 2,899,192	\$ 2,134,295
One to five years	<u>200,000</u>	<u>585,000</u>
Total grants and pledges receivable	3,099,192	2,719,295
Less: discounts	<u>(11,131)</u>	<u>(26,177)</u>
Net grants and pledges receivable	<u>\$ 3,088,061</u>	<u>\$ 2,693,118</u>

As of December 31, 2018 and December 31, 2017 unrecorded conditional grants were \$15,258,835 and \$14,413,786, respectively. The conditions generally relate to milestones that are included in the various grant agreements.

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7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

As of December 31, 2018 Root Capital had the following balances in property, equipment, and leasehold improvements:

		<u>2018</u>	<u>2017</u>
Leasehold improvements	5 - 7 Years	\$ 82,399	\$ 82,399
Property and equipment	3 - 5 Years	111,508	124,015
Computer software and hardware	3 - 5 Years	<u>1,326,624</u>	<u>1,273,720</u>
		1,520,531	1,480,134
Less: accumulated depreciation		<u>379,256</u>	<u>676,067</u>
Leasehold improvements, property, and equipment, net		<u>\$ 1,141,275</u>	<u>\$ 804,067</u>

Depreciation expense was \$113,549 and \$92,068 in 2018 and 2017, respectively.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Program restricted	<u>\$ 4,584,803</u>	<u>\$ 5,595,809</u>
Total net assets with donor restrictions	<u>\$ 4,584,803</u>	<u>\$ 5,595,809</u>

The following net assets with donor restrictions were released from donor restrictions:

	<u>2018</u>	<u>2017</u>
Satisfaction of program restriction	\$ 8,313,457	\$ 6,536,925

9. INTEREST ON BANK DEPOSITS AND INVESTMENT INCOME

Included in interest and investment income for the years ended December 31 are the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 225,123	\$ 112,649
Unrealized gain on investments	5,249	1,476
Realized gain on sales of investments	<u>329</u>	<u>161</u>
Total interest and investment income	<u>\$ 230,701</u>	<u>\$ 114,286</u>

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10. COMMITMENTS

Leases

In August 2015, Root Capital entered into a commercial lease for its principal office space in Cambridge, Massachusetts. The lease expires in 2022. In accordance with the lease, as is common practice in such agreements, Root Capital is also responsible for its pro-rata share of the building's operating expenses and real estate taxes in connection with the lease. At the lease commencement date, Root Capital received a two month rent-free period. Subsequent periods contain annual rent escalations beginning after the twelfth month from the lease commencement date. The lease contains a renewal option for additional five year term under substantially similar conditions. The difference between the actual monthly rent payments and the total lease liability calculated on a straight line basis is recorded as an increase/decrease to deferred rent liability, adjusted over the lease term. The deferred rent liability was \$95,969 in 2018 and \$99,229 in 2017.

Root Capital also leases office space under short-term lease agreements in its various other locations in Africa and Latin America. ACCDER rents office space in Peru under an operating lease agreement that expires in 2020.

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

2019	\$ 694,035
2020	505,080
2021	512,385
2022	392,712
2023 and thereafter	<u>20,617</u>
Total commitments	<u>\$ 2,124,829</u>

Occupancy expense for the years ended December 31, 2018 and 2017 (including utilities and maintenance) totaled \$1,037,354 and \$987,581, respectively.

11. RETIREMENT PLAN

Root Capital has implemented a defined contribution retirement plan covering all eligible employees, who begin to participate on the first day of employment. Root Capital contributes up to 4% of each participating employee's annual salary. During the years ended December 31, 2018 and 2017, Root Capital contributed \$152,975 and \$142,409, respectively, to the employee defined contribution retirement plan, which is included in "Personnel" expense in the accompanying Statements of Functional Expenses.

12. FAIR VALUE MEASUREMENT

Root Capital has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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Investments recorded in the Combined Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

- Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market Root Capital has the ability to access.
- Level 2 - These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Mutual funds: The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained. As of December 31, 2018 and 2017, Root Capital's mutual funds investments, all Level 1, had a fair value of \$258,862 and \$210,885, respectively.

13. TRANSACTIONS WITH RELATED PARTIES

Root Capital's notes payable balance as of December 31, 2018 includes two notes from related parties totaling \$125,000 and are held by two members of Root Capital's Board of Directors. The notes payable balance as of December 31, 2017 included three notes from related parties totaling \$175,000 and these notes are held by three members of Root Capital's Board of Directors. The terms of the notes payable to related parties are consistent with terms of notes payable to non-related parties. Accrued interest on notes from related parties was \$1,125 and \$1,196 as of December 31, 2018 and December 31, 2017, respectively.

Root Capital had a pledges receivable balance from related parties, specifically certain directors in the amount of \$425,000 as of December 31, 2018 and certain directors and an officer in the amount \$751,000 as of December 31, 2017. Contributions from related parties were \$517,246 and \$794,523 in 2018 and 2017, respectively.

14. FOREIGN EXCHANGE

Foreign Currency Translation

The following table summarizes Root Capital's foreign exchange gains and losses on average outstanding foreign currency loan portfolio balances of \$1,964,945 and \$5,813,825 in 2018 and 2017, respectively; in addition to those resulting from Root Capital's foreign currency operating activities. After giving effect to offsetting gains and losses from hedging, additional losses were incurred primarily in local, "soft" currency

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exposures. The resulting foreign exchange losses are reported as foreign currency translation on the Statement of Activities.

	<u>2018</u>	<u>2017</u>
FX gains (losses) on lending	\$ (130,763)	\$ 833,912
FX gains (losses) on hedge activity	158,951	(770,769)
FX gains on operating activity	<u>11,726</u>	<u>72,198</u>
Total FX gains (losses)	<u>\$ 39,914</u>	<u>\$ 135,341</u>

The FX losses were partially reduced by additional interest revenue earned from local currency interest rate premiums charged on underlying loans. Root Capital’s local currency pricing policy employs local benchmark rates, namely central bank and treasury-bill rates, forward rates, and anticipated hedging and other costs, to determine applicable interest rate premiums. In 2018, Root Capital earned local currency interest premium revenue of \$31,164, reported within interest and investment income. In 2018, Root Capital released \$3,020 from a grant with donor restrictions grant that was raised to offset FX losses. Thus, after local currency interest premium revenue and grant releases, Root Capital had net foreign currency gains of \$74,098 in 2018 and net foreign currency gains of \$287,915 in 2017.

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. In 2018 and 2017 Root Capital entered into derivative swap and forward agreements ranging from 1 to 24 months in duration to hedge exposures to the Euro, Ghanaian Cedi and Kenyan Shilling. 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 gain or loss on the derivative, as well as the offsetting loss or gain on the underlying transaction attributable to the hedged risk, are reflected in the foreign currency translation line item on the Statement of Activities.

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

Currency	<u>2018</u>			<u>2017</u>		
	<u>Notional (FX)</u>	<u>Notional (USD)</u>	<u>Fair Value (USD)</u>	<u>Notional (FX)</u>	<u>Notional (USD)</u>	<u>Fair Value (USD)</u>
Euro	€ (1,225,711)	\$ (1,435,893)	\$ 3,556	€ (3,572,192)	\$ (4,138,500)	\$ (225,179)
Ghanaian Cedi	-	-	-	GHC (568,199)	(113,406)	(471)
Kenyan Shilling	KES (17,780,196)	<u>(160,895)</u>	<u>(7,389)</u>	KES (30,757,175)	<u>(271,749)</u>	<u>(16,857)</u>
Totals		<u>\$ (1,596,788)</u>	<u>\$ (3,833)</u>	Totals	<u>\$ (4,523,655)</u>	<u>\$ (242,507)</u>

15. MANAGEMENT FEES

In 2018 and 2017 Root Capital recognized \$301,023 and \$456,086 respectively of revenue for activities performed as the Company Manager of Lending for the African Farming Company (“LAFCo”), a Mauritius based Category 1 Global Business License (“GBL1”) Company which provides working capital to

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agricultural small and medium-sized enterprises in sub-Saharan Africa. LAFCo was incorporated on May 26, 2015 and has two shareholders, KfW Development Bank and AgDevCo. One member of Root Capital's Board of Directors was a member of LAFCo's Board of Directors until May 2018.

16. 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 operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources. Root Capital has generated positive operating cash flows for the fiscal years ended December 31, 2018 and 2017.

The following summarizes the financial assets available to meet its expenditures as of December 31, 2018:

	<u>Resources Available</u>
Financial asseets available within 12 months:	
Cash and cash equivalents	\$ 20,476,191
Loans receivable, net due in 1 year or less available for expenditures	26,473,283
Interest receivable, net due in 1 year or less available for expenditures	956,897
Grants and pledges receivable, net due in 1 year or less available for expenditures	<u>2,899,191</u>
Total financial assets available within 12 months	50,805,562
Liquidity resources	
Lines of credit (no balance outstanding as of December 31, 2018)	<u>6,000,000</u>
Total financial assets and other liquidity resources	<u>\$ 56,805,562</u>

17. SUBSEQUENT EVENTS

In preparing these combined financial statements, Root Capital has evaluated events and transactions for potential recognition or disclosure through April 25, 2019, the date the financial statements were available to be issued.