Combined Financial Statements

Root Capital, Inc.

December 31, 2019 and 2018

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ROOT CAPITAL, INC.

Combined Financial Statements

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Combined Financial Statements:

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

Board of Directors
Root Capital, Inc.
Cambridge, Massachusetts

We have audited the accompanying combined financial statements of Root Capital, Inc. ("Root Capital"), which comprise the combined statement of financial position as of December 31, 2019, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 auditors' 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 2019 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Root Capital as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2018 Combined Financial Statements

The combined financial statements of Root Capital as of December 31, 2018 were audited by other auditors whose report, dated April 25, 2019, expressed an unmodified opinion on those statements.

Emphasis of Matters

As discussed in Note 2 to the combined financial statements, in 2019, Root Capital adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-08*, Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Our Opinion is not modified with respect to these matters.

Mayer Hoffman McCann P.C.

April 21, 2020
Boston, Massachusetts

ROOT CAPITAL, INC.

Combined Statements of Financial Position

December 31,

	2019	*2018*
Assets		
Cash and cash equivalents	$ 37,521,374	$ 39,265,683
Escrow funds held for others	2,827,678	91,345
Short-term investment	270,411	258,862
Loans receivable, net	40,150,842	39,464,628
Collateral dependent impaired loans receivable, net	2,175,568	2,748,145
Interest receivable, net	489,016	956,897
Grants and pledges receivable, net	13,494,601	3,088,061
Guarantees receivable	628,396	2,999,982
Prepaid expenses and other assets	505,869	581,441
Property, equipment and leasehold improvements, net	905,520	1,141,275
Security deposits	301,917	262,471
Total assets	**$ 99,271,192**	**$ 90,858,790**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,048,637	$ 1,358,246
Notes payable	55,697,968	62,904,541
Subordinated debt	9,552,862	7,412,120
Accrued interest payable	751,094	790,843
Escrow funds held for others	2,827,678	91,345
Fair value of foreign currency hedges	23,910	3,833
Other liabilities	83,205	2,579,055
Total liabilities	**69,985,354**	**75,139,983**
Net assets:		
Without donor restrictions	14,647,481	11,134,002
With donor restrictions	14,638,357	4,584,805
Total net assets	**29,285,838**	**15,718,807**
Total liabilities and net assets	**$ 99,271,192**	**$ 90,858,790**

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenue:				
Earned revenue:				
Loan interest	$ 3,820,758	$ -	$ 3,820,758	$ 4,257,370
Loan fees	1,321,379	-	1,321,379	1,125,390
Provision for loan loss	(2,438,774)	-	(2,438,774)	(4,239,179)
Management fees - loan services	17,127	-	17,127	301,023
Fee-for-service revenue	78,551	-	78,551	305,727
Foreign currency translation	19,704	-	19,704	39,914
Other revenue	2,232	-	2,232	56,214
Net earned operating revenue	**2,820,977**	**-**	**2,820,977**	**1,846,459**
Financial revenue (expense):				
Interest and investment return	373,034	-	373,034	230,701
Interest expense	(1,606,665)	-	(1,606,665)	(1,759,365)
Net financial expense	(1,233,631)	-	(1,233,631)	(1,528,664)
Net earned and financial revenue	1,587,346	-	1,587,346	317,795
Contributions and grants	7,023,778	14,423,080	21,446,858	14,068,743
In-kind contributions	172,026	-	172,026	143,843
Net assets released from donor restrictions	10,523,595	(10,523,595)	-	-
Total operating revenue	**19,306,745**	**3,899,485**	**23,206,230**	**14,530,381**
Operating expenses:				
Program services:				
Finance	6,070,259	-	6,070,259	6,521,540
Advise	4,801,775	-	4,801,775	3,624,158
Catalyze	758,913	-	758,913	1,608,710
Total program services	11,630,947	-	11,630,947	11,754,408
Supporting services:				
Management and general	3,582,411	-	3,582,411	2,384,891
Fundraising	579,908	-	579,908	922,406
Total supporting services	4,162,319	-	4,162,319	3,307,297
Total operating expenses	**15,793,266**	**-**	**15,793,266**	**15,061,705**
Change in net assets	**3,513,479**	**3,899,485**	**7,412,964**	**(531,324)**
Net assets at beginning of year, as previously stated	11,134,002	4,584,805	15,718,807	16,250,131
Cumulative impact of change in accounting principles	-	6,154,067	6,154,067	-
Net assets at beginning of year, restated	11,134,002	10,738,872	21,872,874	16,250,131
Net assets at end of year	**$ 14,647,481**	**$ 14,638,357**	**$ 29,285,838**	**$ 15,718,807**

ROOT CAPITAL, INC.

Combined Statement of Activities

Year Ended December 31, 2018

	2018		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Operating revenue:			
Earned revenue:			
Loan interest	$ 4,257,370	$ -	$ 4,257,370
Loan fees	1,125,390	-	1,125,390
Provision for loan loss	(4,239,179)	-	(4,239,179)
Management fees - loan services	301,023	-	301,023
Fee-for-service revenue	305,727	-	305,727
Foreign currency translation	39,914	-	39,914
Other revenue	56,214	-	56,214
Net earned operating revenue	**1,846,459**	**-**	**1,846,459**
Financial revenue (expense):			
Interest and investment income	230,701	-	230,701
Interest expense	(1,759,365)	-	(1,759,365)
Net financial expense	(1,528,664)	-	(1,528,664)
Net earned and financial revenue	317,795	-	317,795
Contributions and grants	6,766,290	7,302,453	14,068,743
In-kind contributions	143,843	-	143,843
Net assets released from donor restrictions	8,313,457	(8,313,457)	-
Total operating revenue	**15,541,385**	**(1,011,004)**	**14,530,381**
Operating expenses:			
Program services:			
Finance	6,521,540	-	6,521,540
Advise	3,624,158	-	3,624,158
Catalyze	1,608,710	-	1,608,710
Total program services	11,754,408	-	11,754,408
Supporting services:			
Management and general	2,384,891	-	2,384,891
Fundraising	922,406	-	922,406
Total supporting services	3,307,297	-	3,307,297
Total operating expenses	**15,061,705**	**-**	**15,061,705**
Change in net assets	**479,680**	**(1,011,004)**	**(531,324)**
Net assets at beginning of year	10,654,322	5,595,809	16,250,131
Net assets at end of year	**$ 11,134,002**	**$ 4,584,805**	**$ 15,718,807**

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2019
(with comparative totals for 2018)

	2019								2018
	Program Services				Supporting Services				
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Total
Personnel	$ 3,831,787	$ 1,400,277	$ 427,273	$ 5,659,337	$ 2,414,782	$ 451,474	$ 2,866,256	$ 8,525,593	$ 8,565,525
Professional services	680,552	1,701,141	144,407	2,526,100	399,197	26,756	425,953	2,952,053	2,586,860
Travel, conferences, and workshops	407,429	1,124,601	56,910	1,588,940	138,075	44,858	182,933	1,771,873	1,305,085
Occupancy and telecommunications	645,948	163,221	54,074	863,243	266,439	42,306	308,745	1,171,988	1,037,354
Other direct costs	504,543	412,535	76,249	993,327	363,918	14,514	378,432	1,371,759	1,566,881
Total	**$ 6,070,259**	**$ 4,801,775**	**$ 758,913**	**$ 11,630,947**	**$ 3,582,411**	**$ 579,908**	**$ 4,162,319**	**$ 15,793,266**	**$ 15,061,705**

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statement of Functional Expenses

Year Ended December 31, 2018

	2018							
	Program Services				*Supporting Services*			
	Finance	*Advise*	*Catalyze*	*Total Program Services*	*Management and General*	*Fundraising*	*Total Supporting Services*	*Total*
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	548,714	552,478	136,691	1,237,883	282,680	46,318	328,998	1,566,881
Total	**$ 6,521,540**	**$ 3,624,158**	**$ 1,608,710**	**$ 11,754,408**	**$ 2,384,891**	**$ 922,406**	**$ 3,307,297**	**$ 15,061,705**

See accompanying notes to the combined financial statements.

ROOT CAPITAL, INC.

Combined Statements of Cash Flows

Years Ended December 31,

	2019	***2018***
Cash flows from operating activities:		
Change in net assets	$ 7,412,964	$ (531,326)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	288,246	113,549
Provision for loan loss	2,438,774	4,239,179
Provision for interest loss	374,911	466,841
Loss on sale of investments	(11,549)	(47,977)
Rent abatement liability	12,763	3,260
Present value discount on grants and pledges	81,236	(15,047)
Foreign currency translation	(19,672)	(39,914)
Contributions converted from debt	-	(1,750,000)
(Increase) decrease in:		
Interest receivable	92,970	(178,723)
Grants and pledges receivable	(4,333,709)	(379,896)
Guarantees receivable	2,371,586	(946,830)
Prepaid expenses and other assets	75,572	57,071
Security deposits	(39,446)	(83,676)
Increase (decrease) in:		
Accounts payable and accrued expenses	65,391	473,711
Other liabilities	(2,508,613)	2,607,156
Net cash provided by operating activities	**6,301,424**	**3,987,378**
Cash flows from investing activities:		
Purchase of property, equipment, and leasehold improvements	(52,491)	(450,757)
Payments on loans receivable	118,475,610	106,742,910
Issuance of loans receivable	(121,028,021)	(97,057,716)
Net cash provided by (used in) investing activities	**(2,604,902)**	**9,234,437**
Cash flows from financing activities:		
Principal payments on notes payable	(10,749,331)	(19,285,676)
Proceeds from issuance of notes payable	5,308,500	8,637,000
Net cash used in financing activities	**(5,440,831)**	**(10,648,676)**
Net increase (decrease) in cash and cash equivalents	**(1,744,309)**	**2,573,139**
Cash and cash equivalents at the beginning of the year	39,265,683	36,692,544
Cash and cash equivalents at the end of the year	**$ 37,521,374**	**$ 39,265,683**

See accompanying notes to the combined financial statements.

Note 1 - Nature of Operations and Basis of Organization

Nature of Operations

Root Capital, Inc. ("Root Capital") is a Massachusetts based non-profit, social investment organization that grows rural prosperity in poor, environmentally vulnerable communities in Africa, Latin America and Southeast Asia by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses. Root Capital operates the following programs:

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

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

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

Root Capital combines its financial results with Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural ("ACCDER"), based in Lima, Peru, Root Capital, Mexico A.C., a non-profit civil association that has received tax exempt recognition from Mexican tax authorities, and Root Capital Guatemala A.C., as a civil association which was dissolved in April 2019. Root Capital also has field offices in Costa Rica, Senegal, and Kenya.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

Cash and Cash Equivalents

Root Capital considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost plus accrued interest. Root Capital maintains cash balances at financial institutions which exceed federally insured limits. Root Capital monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Root Capital has modest amounts on deposit in foreign banks in both dollar and local currencies. As of December 31, 2019 and 2018, there was approximately $3,300,000 and $4,014,000, respectively, of restricted cash included in cash and cash equivalents.

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 with such amounts being recorded at fair value using Level 1 methods as per the fair value polices outlined later in this section.

Loans Receivable and Allowance for Loan Losses (Including Collateral Dependent Impaired Loans Receivable)

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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 making such funds 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.

Grants and Pledges Receivable

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

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

Property, Equipment and Leasehold Improvements

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

Lease Obligations

Lease expenses are recorded on a straight-line basis over the lease term with any difference being accounted for as an obligation.

Income Taxes

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Asset Classification

Net assets are reported as follows:

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

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

Revenue Recognition

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

Revenue from loan interest is recognized as accrued and earned based on the interest rates and unpaid principal balances in the respective agreements unless the underlying loan is in nonaccrual status.

Loan fees are recognized as earned.

In-kind contributions consist primarily of legal services which are recorded at fair value as the services provided with a corresponding charge to operating expenses.

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 statements of functional expenses.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

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

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

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

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

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

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

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

Use of Estimates

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

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

New Accounting Pronouncements

In 2019, Root Capital adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, associated with revenue recognition. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistency in revenue recognition by outlining a principle based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Root Capital adopted this standard using the modified retrospective approach on January 1, 2019.

The adoption of this standard did not materially impact reported revenue or opening net assets because revenue was recorded in the same manner as under prior standards. In evaluating the effects of the change, contracts in process as of the date of adoption were considered under the practical expedient allowed under the standard.

Associated with the adoption of this standard, consideration was given to the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts, and accordingly, no change was made to this accounting.

Root Capital also adopted ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

The contribution standard addresses inconsistency in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standards above. It also provides guidance as to when a contribution should be considered conditional which, for example, is generally when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable.

The contribution standard was applied using the modified retrospective approach on January 1, 2019. This method was applied to transactions that were not complete or had otherwise already been recognized as of the beginning of fiscal year 2019. The impact related to the adoption of the new standard led to an increase in net assets with donor restrictions and an increase in grants and pledges receivable, net of $6,154,066 as of January 1, 2019. In evaluating the effects of the change, contributions in process as of the date of adoption were considered.

Various new accounting pronouncements are pending in future years. Management is currently evaluating the impact of these standards.

Note 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:

	2019			
	Number of Loans	*Outstanding Principal*	*Loan Loss Allowance*	*Net*
Loans receivable (with interest at rates averaging 10% - 11%)	116	$ 47,356,067	$ 7,205,225	$ 40,150,842
Collateral dependent impaired loans receivable	14	6,147,232	3,971,663	2,175,569
Total loans receivable	**130**	**$ 53,503,299**	**$ 11,176,888**	**$ 42,326,411**

	2018			
	Number of Loans	*Outstanding Principal*	*Loan Loss Allowance*	*Net*
Loans receivable (with interest at rates averaging 10% - 11%)	131	$ 47,090,478	$ 7,882,827	$ 39,207,651
Collateral dependent impaired loans receivable	16	5,009,397	2,261,252	2,748,145
Total loans receivable	**147**	**$ 52,099,875**	**$ 10,144,079**	**$ 41,955,796**

Note 3 - Loans Receivable and Collateral Dependent Impaired Loans Receivable (Continued)

The five largest outstanding loans receivable were 26% and 28% of the portfolio as of December 31, 2019 and 2018, respectively.

Scheduled repayments of loans receivable are as follows at December 31, 2019:

Year Ending December 31,	
2020	$ 44,202,558
2021	6,420,327
2022	2,336,029
2023 and thereafter	149,985
	53,108,899
Less: allowance for loan losses	-
Deferred loan origination costs, net of origination fees	394,400
Net loan receivable	**$ 53,503,299**

Most loans receivable are denominated in United States dollars with under 1% of loan amounts being in various other currencies.

Note 3 - Loans Receivable and Collateral Dependent Impaired Loans Receivable (Continued)

Guarantee Agreements

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

Guarantor and Facility	*Amount of Obligation*	*Term of Coverage*	*Outstanding Loan Balances*	*Claims in 2019*	*Claims in 2018*
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	$ 38,810	$ 227,010	$ 68,644
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of $6,250,000	Through September 2019	710,639	1,867,581	165,078
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of $7,700,000	Through June 2026	8,173,229	550,000	-
USAID Development Credit Authority 50% Maximum Ghana Loan Portfolio Guarantee	Maximum obligations of $5,542,500	Through June 2025	-	-	-

Uncommitted and unused amounts remaining under these guarantee programs amounted to approximately $7,179,000 and $11,055,000 for the years ended December 31, 2019 and 2018, respectively. Management estimates the amounts it will recover under these programs as an integral part of its loan loss estimating process, but such amounts cannot be recovered under these programs until the loss is incurred.

Loan Participation

Root Capital enters into loan participation agreements with third parties who wish to enter the impact investing space. Root Capital services the participating interests acquired by those third parties for an agreed upon servicing fee. Total loan participation sales were $0 and $6,432,782 for the years ended December 31, 2019 and 2018, respectively, and are reflected as a reduction of loans receivable.

Note 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:

Loan Type	Special Mention	Substandard	Doubtful	Written Off
Loans with payments due in full at maturity	30	90	180	270
Loans with amortization schedules or scheduled interest	30	90	270	360
Restructured loans	30	90	180	270

Non-Accrual 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.

Note 4 - Allowance for Loan Losses (Continued)

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.

The following rates were effective as of December 31, 2019 and 2018 (shown prior to the application of guarantees):

	Allowance Rate	
Loan Pool	***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

Note 4 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

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

	2019	*2018*
Balance, beginning of year	$ 10,144,079	$ 9,317,737
Write-offs	(2,628,770)	(5,579,907)
Recoveries	1,222,805	2,167,070
Provision for loan losses	2,438,774	4,239,179
Balance, end of year	**$ 11,176,888**	**$ 10,144,079**

Summary of loan risk composition as of December 31:

	2019			
	Outstanding Principal	*Percent of Portfolio*	*Loan Loss Allowance*	*Provision Rate*
Current	$ 33,266,080	63 %	$ 745,257	7 %
Current restructured	2,695,370	5	188,540	2
Special mention	4,828,847	9	1,942,127	17
Substandard	5,960,168	11	4,157,370	37
Doubtful	211,202	0	171,931	2
Collateral dependent	6,147,232	12	3,971,663	35
Total	**$ 53,108,899**	**100 %**	**$ 11,176,888**	**100 %**

Note 4 - Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

	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	4	1,412,280	14
Collateral dependent	5,009,397	10	2,261,252	22
Total	**$ 52,099,875**	**100 %**	**$ 10,144,079**	**100 %**

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).

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:

2019 Portfolio	***Outstanding Principal***	***Percent of Portfolio***	***Allowance for Loan Loss***
Current	$ 2,695,370	23 %	$ 188,539
Special mention	597,866	5	233,496
Substandard	4,957,661	43	3,663,581
Doubtful	119,836	1	97,554
Collateral dependent	3,176,455	28	2,061,296
Total	**$ 11,547,188**	**100 %**	**$ 6,244,466**

Note 4 - Allowance for Loan Losses (Continued)

Restructured Loans (Continued)

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**

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. Amounts that are expected to be recovered under these programs, but are not yet recoverable under guarantee arrangements, are estimated and offset against the allowance for loan losses. 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:

	2019	2018
Recoveries:		
USAID DCA Guarantees	$ 263,442	$ 1,219,750
Other	1,552,439	947,320
Total	**$ 1,815,881**	**$ 2,167,070**

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 $1,041,224 and $711,207 as of December 31, 2019 and 2018, respectively.

Note 5 - Grants and Pledges Receivable

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

	2019	*2018*
One year or less	$ 7,950,353	$ 2,899,192
One to five years	5,636,704	200,000
Total grants and pledges receivable	13,587,057	3,099,192
Less: discounts	(92,456)	(11,131)
Net grants and pledges receivable	**$ 13,494,601**	**$ 3,088,061**

Conditional grants were $934,355 and $15,258,835 at December 31, 2019 and 2018, respectively. The conditions generally relate to milestones that are included in the various grant agreements. Of the $15,528,835 considered conditional grants at December 31, 2018, $11,006,651 were considered unconditional as of January 1, 2019 due to changes in accounting standards as documented in Note 2.

Note 6 - Property, Equipment and Leasehold Improvements

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

		2019	*2018*
Leasehold improvements	5 - 7 Years	$ 117,728	$ 82,399
Property and equipment	3 - 5 Years	123,947	111,508
Computer software and hardware	3 - 5 Years	1,307,783	1,326,624
		1,549,458	1,520,531
Less: accumulated depreciation and amortization		643,938	379,256
Property, equipment and leasehold improvements, net		**$ 905,520**	**$ 1,141,275**

Depreciation and amortization expense was $288,246 and $113,549 in 2019 and 2018, respectively.

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

Notes Payable

Root Capital had 256 and 273 unsecured notes payable as of December 31, 2019 and 2018, respectively. Interest rates are modest and interest payments are due annually with principal due at various dates through 2028.

Subordinated Debt

Root Capital had ten unsecured notes payable as of December 31, 2019 and 2018. Interest rates are modest and interest payments are due annually with principal due at various dates through October 2026. These notes are subordinate to the notes payable above.

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

Investor	*2019* *Outstanding Principal*	*2018* *Outstanding Principal*
Corporation	$ 11,000,000	$ 11,000,000
Foundation	21,164,123	22,055,111
Government/Multilateral	10,900,000	15,260,000
Individual	16,876,550	17,239,050
Other	5,310,157	4,762,500
	$ 65,250,830	**$ 70,316,661**

Notes are concentrated among a few investors with there being three notes that are each greater than 10% of total notes payable in 2019 and 2018. These investors amounted to $27,500,000 and $34,000,000 of the notes outstanding in 2019 and 2018, respectively.

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

Maturities of notes payable and subordinated debt were as follows at December 31, 2019:

2020	$ 20,529,467
2021	10,255,500
2022	17,704,500
2023	3,440,000
2024	5,068,500
Thereafter	8,252,863
	$ 65,250,830

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

Lines of Credit

Root Capital has an unsecured line of credit agreement with a bank in the amount of $3,000,000. The line of credit expires on September 30, 2020. Interest expense was minor in 2019 and 2018.

Note 8 - Net Assets

Net assets consisted of the following at December 31:

	2019		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Investment in property, equipment and leasehold improvements, net	$ 905,520	$ -	$ 905,520
Other net assets	13,741,961	-	13,741,961
Time and purpose restricted	-	14,638,357	14,638,357
Total	**$ 14,647,481**	**$ 14,638,357**	**$ 29,285,838**

Note 8 - Net Assets (Continued)

	2018		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Investment in property, equipment and leasehold improvements, net	$ 1,141,275	$ -	$ 1,141,275
Other net assets	9,992,727	-	9,992,727
Time and purpose restricted	-	4,584,805	4,584,805
Total	**$ 11,134,002**	**$ 4,584,805**	**$ 15,718,807**

Note 9 - Commitments and Contingencies

Leases

Root Capital leases its principal office space as well as other premises under operating lease agreements that expire though 2022. Certain office space is also leased under short-term arrangements. Root Capital is also responsible for its pro-rata share of operating expenses for its principal office.

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

2020	$ 726,643
2021	717,721
2022	600,204
2023	144,148
2024 and thereafter	207,123
Total commitments	**$ 2,395,839**

Rent expense was $752,531 and $750,289 for the years ended December 31, 2019 and 2018, respectively.

Litigation

In the ordinary course of business, Root Capital is involved in a number of litigation matters. In the opinion of management, these matters will not have a significant effect on the combined financial statements of Root Capital.

Note 10 - Retirement Plan

Root Capital has a qualified defined contribution retirement plan covering all eligible employees which provides for contributions of up to 4% of each participating employee's annual salary. Expenses incurred under this plan amounted to $139,349 and $152,975 for the years ended December 31, 2019 and 2018, respectively.

Note 11 - Transactions with Related Parties

Root Capital's notes payable include members of the board of directors amounting to $100,000 and $125,000 at December 31, 2019 and 2018, respectively. Terms are consistent with notes payable to non-related parties.

Note 12 - Foreign Exchange

Fair Value of Currency Swap

Root Capital uses derivative instruments when practical to manage foreign exchange risk related to loans receivable exposures denominated in foreign currencies. Foreign exchange gains and losses from hedging were generally effective in offsetting losses and gains on underlying exposures. Root Capital monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

Root Capital records the fair value of the net position of the currency swap using Level 2 methods as per the fair value policies as outlined earlier in the footnotes along with the impact of the translation adjustments at the end of each reporting period.

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

	2019			2018		
Currency	***Notional (FX)***	***Notional (USD)***	***Fair Value (USD)***	***Notional (FX)***	***Notional (USD)***	***Fair Value (USD)***
Euro	€ (4,121,536)	$ (4,684,918)	$ (19,500)	€ (1,225,711)	$ (1,435,893)	$ 3,556
Ghanaian Cedi	GHC (996,251)	(148,104)	(4,410)	GHC -	-	-
Kenyan Shilling	KES -	-	-	KES (17,780,196)	(160,895)	(7,389)
	Totals	**$ (4,833,022)**	**$ (23,910)**	**Totals**	**$ (1,596,788)**	**$ (3,833)**

Note 13 - Liquidity and Availability of Resources

Root Capital regularly monitors liquidity required to meet its operating needs and other contractual commitments. When reviewing available resources required to meet its expenditures over a 12-month period, all expenditures are considered related to its ongoing activities.

In addition to the financial assets available to meet expenditures over the next 12 months, Root Capital seeks to operate with a relatively balanced budget and anticipates collecting sufficient revenue to cover expenditures. Root Capital has generated positive operating cash flows for the fiscal years ended December 31, 2019 and 2018.

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

	2019	***2018***
Financial assets available within 12 months:		
Cash and cash equivalents	$ 13,668,463	$ 20,476,191
Loans receivable, net due in one year or less available for expenditures	33,061,933	26,473,283
Interest receivable, net due in one year or less available for expenditures	489,016	956,897
Grants and pledges receivable, net due in one year or less available for expenditures	7,950,353	2,899,191
Total financial assets available within 12 months	55,169,765	50,805,562
Liquidity resources		
Lines of credit (no balance outstanding as of December 31, 2019)	3,000,000	6,000,000
Total financial assets and other liquidity resources	**$ 58,169,765**	**$ 56,805,562**

Note 14 - Subsequent Events

Root Capital has evaluated events and transactions for potential recognition or disclosure through April 21, 2020, the date the combined financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. There may be impacts which at this time are not reasonably estimable; however, as of the date of issuance, management is not aware of material impairment, losses or negative collection trends on its various assets or the credit risks presented by its banks or others.