

Combined Financial Statements, Supplemental Schedules and
Report of Independent Certified Public Accountants

ROOT CAPITAL, INC.

December 31, 2015 and 2014

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. (“the Organization”), which comprise the combined statements of financial position as of December 31, 2015 and 2014, 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 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, 2015 and 2014, and the results of its operations, its functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The statements of functional expenses for the years ended December 31, 2015 and 2014 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statement and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Boston, Massachusetts

April 18, 2016

ROOT CAPITAL, INC.
Combined Statement of Financial Position
As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,261,532	\$ 26,771,734
Escrow funds held for others	1,528,569	1,928,261
Investments (Note 3)	200,720	198,006
Loans receivable, net of non current portion and allowance for loan loss (Notes 4 and 5)	53,522,508	56,295,291
Interest receivable, net (Note 5)	2,933,489	2,351,981
Fair value of FX hedges (Note 14)	-	1,534,418
Grants and pledges receivable, net (Note 7)	2,773,397	7,724,285
Prepaid expenses and other assets	2,165,009	1,439,291
Total current assets	<u>88,385,224</u>	<u>98,243,267</u>
NONCURRENT ASSETS		
Property, equipment and leasehold improvements, net (Note 8)	280,610	135,583
Loans receivable, net of current portion, allowance for loan loss, and deferred financing costs (Notes 4 and 5)	42,008,082	42,208,330
Grants and pledges receivable, net of current portion (Note 7)	71,568	591,282
Security deposits	181,124	82,783
Total noncurrent assets	<u>42,260,774</u>	<u>42,882,395</u>
Total assets	<u>\$ 130,926,608</u>	<u>\$ 141,261,245</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable, net of noncurrent portion (Note 6)	\$ 27,496,657	\$ 18,066,542
Subordinated debt, net of noncurrent portion (Note 6)	700,000	625,000
Line of credit, net of noncurrent portion	-	7,000,000
Escrow funds held for others	1,528,569	1,928,261
Accounts payable and accrued expenses	2,006,710	1,587,190
Accrued interest payable	1,119,806	762,054
Fair value of FX hedge payable (Note 14)	14,624	-
Other current liabilities	578,484	471,422
Total current liabilities	<u>33,444,850</u>	<u>30,440,469</u>
NONCURRENT LIABILITIES		
Notes payable, net of current portion (Note 6)	68,776,887	73,761,921
Subordinated debt, net of current portion (Note 6)	2,800,000	1,400,000
Line of credit, net of current portion	-	3,000,000
Other non-current liabilities (Note 10)	92,986	-
Total noncurrent liabilities	<u>71,669,873</u>	<u>78,161,921</u>
Total liabilities	<u>105,114,723</u>	<u>108,602,390</u>
NET ASSETS		
UNRESTRICTED		
Operating reserve	4,695,044	4,728,523
Board designated for lending capital	-	2,695,339
Board designated for loan loss reserves	4,600,640	4,845,773
Unrestricted	9,295,684	12,269,635
TEMPORARILY RESTRICTED (Note 9)	<u>16,516,201</u>	<u>20,389,220</u>
Total net assets	<u>25,811,885</u>	<u>32,658,855</u>
Total liabilities and net assets	<u>\$ 130,926,608</u>	<u>\$ 141,261,245</u>

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

ROOT CAPITAL, INC.
Combined Statement of Activities
For the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Earned revenue			
Loan interest	\$ 9,924,100	\$ -	\$ 9,924,100
Loan fees	1,661,422	-	1,661,422
Provision for loan loss, net of recoveries	(5,841,764)	-	(5,841,764)
Management fees	381,365	-	381,365
Fee-for-service revenue	282,225	-	282,225
Foreign currency translation (Note 14)	(1,476,403)	-	(1,476,403)
Other revenue	4,943	-	4,943
Net earned revenue	<u>4,935,888</u>	<u>-</u>	<u>4,935,888</u>
Financial revenue (expense)			
Interest and investment income (Note 3)	93,592	-	93,592
Interest expense	(2,550,608)	-	(2,550,608)
Net financial expense	<u>(2,457,016)</u>	<u>-</u>	<u>(2,457,016)</u>
Net earned and financial revenue	2,478,872	-	2,478,872
Contributions and grants	2,246,579	4,282,204	6,528,783
In-kind contributions	206,533	-	206,533
Net assets released from donor restrictions	8,155,223	(8,155,223)	-
Total revenue	<u>13,087,207</u>	<u>(3,873,019)</u>	<u>9,214,188</u>
EXPENSES			
Program services			
Finance	5,961,701	-	5,961,701
Advise	4,325,632	-	4,325,632
Catalyze	2,382,118	-	2,382,118
Total program services	<u>12,669,451</u>	<u>-</u>	<u>12,669,451</u>
Supporting services			
Management and general	2,695,438	-	2,695,438
Fundraising	696,268	-	696,268
Total supporting services	<u>3,391,706</u>	<u>-</u>	<u>3,391,706</u>
Total expenses	16,061,157	-	16,061,157
Changes in net assets	(2,973,950)	(3,873,019)	(6,846,969)
Net assets at beginning of year	<u>12,269,634</u>	<u>20,389,220</u>	<u>32,658,854</u>
Net assets at end of year	<u>\$ 9,295,684</u>	<u>\$ 16,516,201</u>	<u>\$ 25,811,885</u>

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

ROOT CAPITAL, INC.
Combined Statement of Activities
For the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Earned revenue			
Loan interest	\$ 8,678,848	\$ -	\$ 8,678,848
Loan fees	1,570,459	-	1,570,459
Provision for loan loss, net of recoveries	(4,647,699)	-	(4,647,699)
Contracted revenue	258,620	-	258,620
Foreign currency translation (Note 14)	(622,016)	-	(622,016)
Other revenue	<u>107,014</u>	<u>-</u>	<u>107,014</u>
Net earned revenue	<u>5,345,226</u>	<u>-</u>	<u>5,345,226</u>
Financial expense			
Interest and investment income (Note 3)	129,223	-	129,223
Interest expense	<u>(2,056,594)</u>	<u>-</u>	<u>(2,056,594)</u>
Net financial expense	<u>(1,927,371)</u>	<u>-</u>	<u>(1,927,371)</u>
Net earned and financial revenue	3,417,855		3,417,855
Contributions and grants	2,479,846	4,741,418	7,221,264
In-kind contributions	270,485	-	270,485
Net assets released from donor restrictions	<u>9,537,973</u>	<u>(9,537,973)</u>	<u>-</u>
Total revenue	15,706,159	(4,796,555)	10,909,604
EXPENSES			
Program services			
Finance	5,804,560	-	5,804,560
Advise	4,142,426	-	4,142,426
Catalyze	<u>2,257,433</u>	<u>-</u>	<u>2,257,433</u>
Total program services	<u>12,204,419</u>	<u>-</u>	<u>12,204,419</u>
Supporting services			
Management and general	2,595,970	-	2,595,970
Fundraising	<u>528,970</u>	<u>-</u>	<u>528,970</u>
Total supporting services	<u>3,124,940</u>	<u>-</u>	<u>3,124,940</u>
Total expenses	15,329,359	-	15,329,359
Changes in net assets	376,800	(4,796,555)	(4,419,755)
Net assets at beginning of year	<u>11,892,834</u>	<u>25,185,775</u>	<u>37,078,609</u>
Net assets at end of year	<u>\$ 12,269,634</u>	<u>\$ 20,389,220</u>	<u>\$ 32,658,854</u>

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

ROOT CAPITAL, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2015

	Program Services			Supporting Services			Total Supporting Services	Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising		
Personnel	\$ 4,115,562	\$ 1,626,219	\$ 1,653,311	\$ 7,395,092	\$ 1,796,874	\$ 549,046	\$ 2,345,920	\$ 9,741,012
Professional services	577,626	1,639,731	298,717	2,516,074	443,177	21,518	464,695	2,980,769
Travel, conferences, and workshops	470,847	531,000	204,003	1,205,850	124,358	52,551	176,909	1,382,759
Occupancy and telecommunications	388,811	295,737	159,217	843,765	140,047	36,794	176,841	1,020,606
Other direct costs	<u>408,855</u>	<u>232,945</u>	<u>66,870</u>	<u>708,670</u>	<u>190,982</u>	<u>36,359</u>	<u>227,342</u>	<u>936,011</u>
Total	<u>\$ 5,961,701</u>	<u>\$ 4,325,632</u>	<u>\$ 2,382,118</u>	<u>\$ 12,669,451</u>	<u>\$ 2,695,438</u>	<u>\$ 696,268</u>	<u>\$ 3,391,706</u>	<u>\$ 16,061,157</u>

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

ROOT CAPITAL, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2014

	Program Services			Supporting Services			Total Supporting Services	Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising		
Personnel	\$ 4,039,528	\$ 1,763,709	\$ 1,621,772	\$ 7,425,009	\$ 1,766,010	\$ 417,273	\$ 2,183,283	\$ 9,608,292
Professional services	480,018	1,511,971	218,319	2,210,308	323,142	17,295	340,437	2,550,745
Travel, conferences, workshops	438,246	612,617	193,838	1,244,701	135,060	37,684	172,743	1,417,444
Occupancy and telecommunications	350,892	126,165	91,548	568,605	136,162	13,121	149,283	717,888
Other direct costs	<u>495,876</u>	<u>127,964</u>	<u>131,956</u>	<u>755,796</u>	<u>235,596</u>	<u>43,597</u>	<u>279,194</u>	<u>1,034,989</u>
Total	<u>\$ 5,804,560</u>	<u>\$ 4,142,426</u>	<u>\$ 2,257,433</u>	<u>\$ 12,204,419</u>	<u>\$ 2,595,970</u>	<u>\$ 528,970</u>	<u>\$ 3,124,940</u>	<u>\$ 15,329,359</u>

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

ROOT CAPITAL, INC.
Combined Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (6,846,969)	\$ (4,419,754)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	88,408	138,569
Provision for loan loss	6,694,432	6,291,880
Provision for interest loss	309,132	508,438
Realized loss on investments	-	39,875
Unrealized loss on sales of investments	417	(16,818)
Rent abatement benefit	44,608	(64,430)
Present value discount on grants and pledges	(287)	(76,738)
Unrealized and realized losses on foreign currency (Note 14)	1,476,403	796,015
(Increase) decrease in		
Interest receivable	(812,099)	(1,277,874)
Grants and pledges receivable	5,470,889	4,851,711
Guarantees and other receivables	(365,910)	(760,507)
Prepaid expenses and other assets	44,947	(131,615)
Security deposits	(98,341)	9,228
Increase (decrease) in		
Loan participation liability	-	(20,829)
Accounts payable and accrued expenses	479,360	(234,453)
Other liabilities	53,661	272,476
Net cash provided by operating activities	<u>6,538,651</u>	<u>5,905,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and leasehold improvements	(234,353)	(48,054)
Proceeds from sales of investments	-	8,900,000
Principal payments on loans receivable	149,968,359	141,686,193
Issuance of loans	<u>(154,136,726)</u>	<u>(177,672,802)</u>
Net cash used by investing activities	<u>(4,402,720)</u>	<u>(27,134,663)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(31,441,675)	(22,623,650)
Principal payments on subordinated debt	(625,000)	
Proceeds from issuance of notes payable	26,620,543	51,251,602
Proceeds from subordinated debt	<u>1,800,000</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(3,646,132)</u>	<u>28,627,951</u>
Net increase (decrease) in cash and cash equivalents	(1,510,201)	7,398,463
Cash and cash equivalents at the beginning of year	<u>26,771,734</u>	<u>19,373,271</u>
Cash and cash equivalents at the end of year	<u>\$ 25,261,532</u>	<u>\$ 26,771,734</u>
Supplemental cash flow information:		
Interest paid	\$ 2,014,312	\$ 1,737,149

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

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2015 and 2014

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 and Latin America 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 into one of the following:

- Lines of credit, which are used by borrowers to cover costs of purchasing raw product from their farmer 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 R&D, 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 financials with Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural (ACCDER), based in Lima, Peru, for the purposes of financial statement presentation, since Root Capital is ACCDER's primary source of its operational funding in the form of grants as well as its primary financing partner. ACCDER is a civil association that was incorporated in Peru on September 22, 2011. ACCDER is a nonprofit by virtue of its statutes, although it was never granted tax exemption by Peruvian tax authorities. Its objective is to provide financial management training and access to finance for small and medium agricultural enterprises.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2015 and 2014

Root Capital, Inc. combines its financials with Root Capital, Asociación Civil (A.C.), based in San Cristóbal de las Casas, Chiapas, Mexico, for the purposes of financial statement presentation, since Root Capital, Inc. is one of two founding members of the entity. Root Capital, A.C., is a civil association that was incorporated in Mexico on December 4, 2012. Root Capital, A.C., is nonprofit by virtue of its statutes and has received tax exempt recognition from Mexican tax authorities. Its objective is to promote the sustainable development of rural communities through technical assistance to develop local individuals and businesses.

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 and Root Capital A.C., together “Root Capital.” All intercompany transactions have been eliminated in combination.

Cash and Cash Equivalents

Root Capital considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Root Capital maintained adequate cash to meet liquidity-related covenants.

Root Capital held \$280,509 and \$543,380 of USD and foreign currency and cash equivalents at financial institutions in foreign countries at December 31, 2015 and 2014, 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 \$24,761,532 and \$26,271,733 at December 31, 2015 and 2014, 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. As of December 31, 2015 and 2014, total escrow funds were \$1,528,569 and \$1,928,261, respectively.

Investments

Investments consist of a mutual fund that invests primarily in money market instruments and short term, fixed income securities, and are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the accompanying Combined Statements of Activities.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of an allowance for loan losses (see Notes 4 and 5). The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2015 and 2014

Transfer of Financial Assets

Transfer 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 the Company - 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) the Company 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 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 excluded from pledges receivable 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 (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 is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to Section 501(a). ACCDER and Root Capital A.C. are organized and operated under the regulations of their respective countries, Peru and Mexico. Root Capital A.C. is a registered charitable organization in Mexico. The income tax consequences, if any, are reflected in the financial statements and do not have a material effect, individually or in the aggregate, upon Root Capital's financial statements.

Revenue Recognition

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor.

Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in accordance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

Revenues from interest on loans is recognized on the straight-line method based on fixed interest rates. Revenue from investment income is recognized using the effective interest method.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2015 and 2014

Loan origination costs, net of origination fees are amortized over the life of the associated loans.

Net Asset Classification

The net assets are reported as follows:

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for all uses by Root Capital. Root Capital has grouped its unrestricted net assets into the following categories:

- Operating reserve represents funds available to carry on the operations of Root Capital.
- Board designated for loan loss reserves represent amounts designated by the Board of Directors to provide for potential loan losses. The Board of Directors has maintained a policy to restrict certain funds to supplement the allowance for loan losses equal to 10% of the outstanding loans receivable balance (see Note 4). This serves as a liquidity reserve, providing a security enhancement to investors.
- Board designated for lending capital represents amounts set aside to provide a capital base for lending activities. Root Capital maintains a policy of committing unrestricted net assets in excess of those needed to fund operating and loan loss reserves for lending capital. This amount varies based on loan loss reserve requirements and based on the net operating surplus or deficit. As of December 31, 2015, the amount was \$0 due to the operating deficit in 2015. In 2014 the amount was \$2,695,339.

Temporarily restricted net assets are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. Donor funds specifically designated for lending purposes represent resources which primarily provide a stable capital base, thus assisting in meeting debt covenants and providing for potential loan losses. This restricted lending capital is generally not available for operating costs. No donor has imposed an obligation on Root Capital to replenish the principal of any gift of lending capital in the event such funds are needed to offset loan losses. Accordingly, donor restricted lending capital funds have been classified as temporarily restricted net assets in the accompanying Statements of Financial Position. Once a loan is issued, there is no requirement to replenish that loan upon repayment. As a result, amounts from the temporarily restricted lending net assets can be released from restriction when the initial loan is issued.

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 gift as in-kind services revenue and as in-kind services expense in the accompanying 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

ROOT CAPITAL, INC.
Notes to Combined Financial Statements
December 31, 2015 and 2014

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.

In 2015, the functional expenses categories have been reduced from eleven to five major expense categories to match the reporting structure of most grant proposals and to increase the efficiency of the costs allocation process. For comparison, the 2014 Statement of Functional Expenses has been updated to reflect these five categories.

3. INTEREST ON BANK DEPOSITS AND INVESTMENTS INCOME

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 94,009	\$ 152,280
Unrealized loss on investments	(417)	(39,875)
Realized gain (loss) on sales of investments	<u>-</u>	<u>16,818</u>
Total interest and investment income	<u>\$ 93,592</u>	<u>\$ 129,223</u>

4. LOANS RECEIVABLE

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

<u>Portfolio</u>	<u>2015</u>		<u>2014</u>	
	<u>Number of Loans</u>	<u>Amount</u>	<u>Number of Loans</u>	<u>Amount</u>
Frontier Portfolio	81	\$ 8,171,883	42	\$ 7,925,073
Sustainable Trade Fund	<u>226</u>	<u>92,501,180</u>	<u>225</u>	<u>95,199,323</u>
Total	<u>307</u>	<u>\$ 100,673,063</u>	<u>267</u>	<u>\$ 103,124,396</u>

The five largest outstanding loans receivable were approximately 15% and 14% of the portfolio as of December 31, 2015 and 2014, respectively. The average outstanding loan balance at December 31, 2015 was \$325,803. The average outstanding loan balance at December 31, 2014 was \$386,234.

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

	<u>2015</u>	<u>2014</u>
Year Ending December 31		
2016 and earlier	\$ 58,739,669	\$ 60,916,065
2017	15,159,416	16,568,658
2018	5,667,779	8,316,187
2019	11,948,675	5,175,805
2020	4,830,084	8,424,033
2021 and thereafter	<u>4,327,440</u>	<u>3,723,648</u>
	100,673,063	103,124,396
Less: allowance for loan losses (Note 5)	(5,407,604)	(4,620,775)
Deferred loan origination costs, net of origination fees	<u>265,131</u>	<u>-</u>
Net loan receivable	<u>\$ 95,530,590</u>	<u>\$ 98,503,621</u>

Historically, management has deemed the origination costs to be immaterial. In 2015, management began to account for them.

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 as follows:

<u>Currency</u>	<u>2015</u>	<u>2014</u>
U.S Dollar	\$ 86,011,752	\$ 81,745,852
Euro	10,045,898	16,023,608
Kenyan Shilling	1,485,839	698,239
Tanzanian Shilling	193,454	605,368
Ugandan Shilling	-	537,294
Ghanaian Cedi	1,568,092	1,818,172
Colombian Peso	49,809	62,263
Peruvian Nuevo Sol	148,536	-
Guatemalan Quetzal	189,811	1,158,699
Mexican Peso	<u>979,872</u>	<u>474,901</u>
Total loans receivable	<u>\$ 100,673,063</u>	<u>\$ 103,124,396</u>

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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 2014</u>	<u>Claims in 2015</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	\$ 1,374,461	\$ 178,276	\$ 562,489
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of \$6,250,000	Through September 2019	\$ 5,362,026	\$ 27,579	\$ 152,968
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	\$ 2,569,737	\$ -	\$ -

Loan Participation

In 2014, Root Capital entered into a loan participation agreement (the “Agreement”) with an impact-centered asset management company based in the U.S. (the “Investor”). Under the terms of the Agreement, the Investor would fund the loan participation program through cash and a note payable. The Investor pre-approved loans and borrowers that could be included in the loan participation. Each participation under this agreement is accompanied by a participation certificate. Root Capital services the Investor’s participating interest.

The Investor, in executing the purchase of a participation interest, acquires a pro rata share of the loan receivable balance with each participation. Proceeds from participated interests are distributed on a pro rata basis between Root Capital and the Investor. Root Capital treats transactions under this participation agreement as transfer of financial assets, accounted for by derecognition of the loan receivable balances. Root Capital transfers the Investor’s portion of proceeds from the participated loans, net of servicing fees. As of December 31, 2015 and December 31, 2014 the Investor’s outstanding loan participation balance was \$ 1,292,598 and 2,430,771.

5. 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 provisioning policy. The allowance for loan losses is presented on the Statement of Financial Position as a reduction of the loan receivable balance. All outstanding loans are risk rated on a regular basis, based on performance factors related to product, management, buyer, and context. A quantitative and qualitative risk rating score as well as a delinquency classification is used to systematically classify the risk level of each loan.

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

	2015			2014		
	Sustainable Trade Fund	Frontier	Total	Sustainable Trade Fund	Frontier	Total
Balance, beginning of year	\$ 4,084,117	\$ 536,658	\$ 4,620,775	\$ 1,506,459	\$ 135,792	\$ 1,642,251
Provision for loan losses	5,696,921	997,511	6,694,432	5,442,712	849,168	6,291,880
Write-offs	<u>(4,794,314)</u>	<u>(1,113,289)</u>	<u>(5,907,603)</u>	<u>(2,865,055)</u>	<u>(448,301)</u>	<u>(3,313,356)</u>
Balance at December 31, 2015	<u>\$ 4,986,724</u>	<u>\$ 420,880</u>	<u>\$ 5,407,604</u>	<u>\$ 4,084,116</u>	<u>\$ 536,659</u>	<u>\$ 4,620,775</u>

Guarantees and Recoveries

As previously disclosed in note 4, some 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, with the corresponding recovery revenue also recorded. Other recoveries that are not related to guarantees are recognized on a cash basis. All recoveries are netted against provision for loan loss on the Statement of Activities. The following is a schedule of recoveries as of December 31:

	2015			2014		
	Sustainable Trade Fund	Frontier	Total	Sustainable Trade Fund	Frontier	Total
Recoveries						
Guarantees	\$ 232,843	\$ 329,909	\$ 562,752	\$ 845,487	\$ 133,458	\$ 978,945
Other	<u>221,337</u>	<u>68,579</u>	<u>289,916</u>	<u>443,406</u>	<u>221,830</u>	<u>665,236</u>
Total	<u>\$ 454,180</u>	<u>\$ 398,488</u>	<u>\$ 852,668</u>	<u>\$ 1,288,893</u>	<u>\$ 355,288</u>	<u>\$ 1,644,181</u>

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 lending staff, 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.

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Root Capital's loan classification methodology follows guidance from the Office of the Comptroller of the Currency (OCC) which charters, regulates, and supervises all national banks in the United States. OCC guidelines are 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 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 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.

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 on loans on non-accrual status are applied to accrued interest and principal obligations. Accrual status for a particular borrower's loans resumes when the borrower performs satisfactorily for at least six months, the borrower is in compliance with all loan covenants, and no going concern issues exist that might interfere with the borrower's ability to make future payments.

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Summary of loan risk composition as of December 31:

		2015			
		Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Sustainable Trade Fund					
Current		\$ 70,569,048	76.3 %	\$ 490,719	0.53 %
Special Mention		16,703,900	18.1	1,583,246	1.71
Substandard		4,404,883	4.8	2,089,410	2.26
Doubtful		823,349	0.9	823,349	0.89
Total		<u>92,501,180</u>	<u>100.0</u>	<u>4,986,724</u>	<u>5.39</u>
Frontier					
Current		4,605,326	56.4	55,636	0.68
Special Mention		3,131,916	38.3	204,600	2.50
Substandard		286,114	3.5	71,529	0.88
Doubtful		148,527	1.8	89,116	1.09
Total		<u>8,171,883</u>	<u>100.0</u>	<u>420,881</u>	<u>5.15</u>
Total - all portfolios		<u>\$ 100,673,063</u>	<u>100.0 %</u>	<u>\$ 5,407,605</u>	<u>5.37 %</u>
		2014			
		Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Sustainable Trade Fund					
Current		\$ 82,840,624	87.0 %	\$ 852,503	0.90 %
Special Mention		8,198,991	8.6	676,377	0.71
Substandard		2,948,630	3.1	1,371,644	1.44
Doubtful		1,211,079	1.3	1,183,594	1.24
Total		<u>95,199,324</u>	<u>100.0</u>	<u>4,084,118</u>	<u>4.29</u>
Frontier					
Current		5,227,420	66.0	72,446	0.91
Special Mention		1,942,945	24.5	97,190	1.23
Substandard		546,158	6.9	236,740	2.99
Doubtful		208,549	2.6	130,283	1.64
Total		<u>7,925,072</u>	<u>100.0</u>	<u>536,659</u>	<u>6.77</u>
Total - all portfolios		<u>\$ 103,124,396</u>	<u>100.0 %</u>	<u>\$ 4,620,777</u>	<u>4.48 %</u>

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Loans are written off when it is determined that the likelihood and/or timing of repayment are highly uncertain. Delinquency write-off thresholds are established by payment structure with loans due in full at maturity being written off after 270 days of delinquency and loans with amortization schedules and/or scheduled interest payments after 360 days.

Root Capital sets aside a reserve, based on historical experience, as an estimate of potential loans losses according to the following guidelines:

Classification	Reserve Level	Delinquency Thresholds (Days)		
		Single Payment Loans (Due at Maturity)	Amortizing Loans	Restructured Loans*
Current	0.5%	N/A	N/A	N/A
Special Mention	5%	At Maturity	45	45
Substandard	50%	90	90	90
Doubtful	100%	180	270	180
Write-off	0%	270	360	270

* Restructured loans are reserved at a minimum of 10%

Restructured Loans

A loan restructure is a modification to loan terms that results from the borrower's inability to perform under its existing loan terms due to a business weakness that is not temporary (more than 90 days). Restructured loans and loans in the process of being restructured are provisioned at a minimum of ten percent.

The table below shows restructured loans information as of December 31.

2015 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Sustainable Trade Fund			
Current	\$ 1,825,236	1.8 %	\$ 147,000
Doubtful	406,816	0.4	406,816
Special Mention	3,676,820	3.7	353,783
Substandard	1,624,100	1.6	812,050
	<u>7,532,972</u>	<u>7.5</u>	<u>1,719,649</u>
Frontier			
Current	113,067	0.1	5,653
Doubtful	148,527	0.1	89,116
Special Mention	1,761,063	1.7	146,353
Substandard	46,271	0.0	11,568
	<u>2,068,928</u>	<u>2.1</u>	<u>252,690</u>
Grand total	<u>\$ 9,601,900</u>	<u>9.5 %</u>	<u>\$ 1,972,339</u>

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2014 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Sustainable Trade Fund			
Current	\$ 1,103,972	1.1 %	\$ 110,397
Doubtful	967,690	0.9	940,190
Special Mention	542,180	0.5	51,852
Substandard	-	0.0	-
	<u>2,613,842</u>	<u>2.5</u>	<u>1,102,439</u>
Frontier			
Current	756,063	0.7	50,089
Doubtful	156,533	0.2	78,267
Special Mention	1,411,886	1.4	72,654
Substandard	181,698	0.2	54,509
	<u>2,506,180</u>	<u>2.4</u>	<u>255,519</u>
Grand total	<u>\$ 5,120,022</u>	<u>5.0 %</u>	<u>\$ 1,357,958</u>

Allowance for Interest Losses

Root Capital also records an allowance for potential losses on interest receivable for loans classified as substandard or doubtful through the date it was placed on non-accrual. Root Capital nets the provision expense associated with such allowances against interest revenue on loans in the accompanying Statements of Activities. The balance of the allowance for losses on interest receivable was \$132,837 and \$191,213 as of December 31, 2015 and 2014.

6. NOTES PAYABLE, SUBORDINATED DEBT & LINES OF CREDIT

Notes Payable

Root Capital had 245 and 196 outstanding notes payable as of December 31, 2015 and 2014 respectively. The notes mature at various dates from 2015 to 2025 and are unsecured.

Subordinated Debt

Included in notes payable as of December 31, 2015 is \$3,500,000 of subordinated debt from seven investors. One of the subordinated notes for \$200,000 has a 15% grant convertibility feature at maturity. One of the subordinated notes for \$300,000 has a convertibility feature such that the debt is convertible to net assets in the event of default or at the discretion of the investor. Included in notes payable as of December 31, 2014 is \$2,025,000 of subordinated debt from three investors. Interest payments are due annually on the subordinated debt, with lump-sum payments of principal due on or before the maturity dates between May 2016 and December 2025. The notes are subordinate to all senior creditors.

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

Investor	2015	2014
	Outstanding Principal	Outstanding Principal
Corporation	\$ 16,250,000	\$ 13,000,000
Foundation	31,891,000	33,408,410
Government/Multilateral	28,340,000	28,700,000
Individual	15,697,987	8,664,686
Other	<u>7,594,557</u>	<u>10,080,367</u>
	<u>\$ 99,773,544</u>	<u>\$ 93,853,463</u>

Investor	2015	2014
	Outstanding Principal	Outstanding Principal
1	\$ 20,000,000	\$ 20,000,000
2	15,000,000	15,000,000
3	15,000,000	12,000,000
4	6,000,000	6,000,000
5	3,465,000	4,000,000
All other investors	<u>40,308,544</u>	<u>36,853,463</u>
	<u>\$ 99,773,544</u>	<u>\$ 93,853,463</u>

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

Year Ending December 31,	
2016	\$ 27,676,657
2017	17,936,887
2018	18,090,000
2019	3,525,000
2020	3,560,000
2021 and thereafter	<u>28,985,000</u>
	<u>\$ 99,773,544</u>

The 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 included within the agreements with a small number of our largest lenders 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.

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As of December 31, 2015, the open credit exposure ratio as defined by the covenant with one of the investors was 31%, against a covenant threshold maximum of 18%. The investor was notified prior to December 31, 2015 about the impending non-compliance and a waiver process was initiated, which was fully executed on January 28, 2016. Root Capital kept this investor informed throughout 2015, including communicating the three out of four quarters that Root Capital was out of compliance. There was no impact to any of the other existing covenants.

Lines of Credit

In 2014 Root Capital opened four lines of credit with a combined limit of \$10,000,000. 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, 2015 all four lines of credit were unutilized. As of December 31, 2014 all lines credits were fully utilized. One of the lines of credit is secured, with Bank of America holding \$3,000,000 as cash collateral. The other lines are unsecured. The interest expense charged on all lines of credit in 2015 and 2014 was \$75,409 and \$49,579 respectively.

7. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable represent unconditional promises to give in the form of grants and pledges from various donors. Grants and pledges due within one year are classified as current assets; those due beyond one year are recorded at their net present value using an interest rate effective as of the date of the gift.

Conditional grants are excluded from the pledges receivable until the conditions are substantially met. As of December 31, 2015 and December 31, 2014 unrecorded conditional grants were \$4,712,924 and \$2,264,346 respectively.

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

	<u>2015</u>	<u>2014</u>
One year or less	\$ 2,773,397	\$ 7,724,285
One to five years	<u>75,000</u>	<u>595,000</u>
Total grants and pledges receivable	2,848,397	8,319,285
Less: Current portion	(2,773,397)	(7,724,285)
Less: Discounts	<u>(3,432)</u>	<u>(3,718)</u>
Net noncurrent grants and pledges receivable	<u>\$ 71,568</u>	<u>\$ 591,282</u>

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8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

As of December 31, 2015 Root Capital had the following balances in property, equipment, and leasehold improvements:

		<u>2015</u>	<u>2014</u>
Leasehold improvements	5 - 7 Years	\$ 292,343	\$ 189,900
Property & equipment	3 - 5 Years	183,811	145,492
Computer software & hardware	3 Years	<u>608,465</u>	<u>514,874</u>
		1,084,619	850,266
Less: accumulated depreciation		<u>804,008</u>	<u>714,683</u>
Leasehold improvements, property, & equipment, net		<u>\$ 280,611</u>	<u>\$ 135,583</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Program restricted	\$ 4,505,636	\$ 8,388,655
Lending net assets	6,543,898	6,533,898
Loan loss reserve- donor designated	<u>5,466,667</u>	<u>5,466,667</u>
Total temporarily restricted net assets	<u>\$ 16,516,201</u>	<u>\$ 20,389,220</u>

The following temporarily restricted net assets were released from donor restrictions:

	<u>2015</u>	<u>2014</u>
Satisfaction of time restriction	\$ -	\$ 3,177,397
Satisfaction of program restriction	<u>8,155,223</u>	<u>6,360,576</u>
Net assets released from donor restrictions	<u>\$ 8,155,223</u>	<u>\$ 9,537,973</u>

10. COMMITMENTS

Leases

During 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 this lease. At lease commencement date, Root Capital received a two month rent free period. Subsequent periods contain annual rent escalations beginning after the twelve month from lease commencement date, and as was the case with Root Capital's previous headquarters

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office also in Cambridge. The old lease ended in July 2015 while the new lease commenced in August 2015. The new lease contains a renewal option for additional 5 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 \$44,608 in 2015. The deferred rent benefit was \$64,430 in 2014.

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 a three-year operating lease agreement that expires in 2018.

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

2016	\$ 697,540
2017	652,759
2018	641,758
2019	544,958
2020	458,520
2021 and thereafter	<u>824,385</u>
Total commitments	<u>\$ 3,819,920</u>

Occupancy expense for the years ended December 31, 2015 and 2014 (including utilities and maintenance) totaled \$1,020,605 and \$600,018 respectively.

EcoLogic Development Fund, Inc.

EcoLogic Development Fund, Inc. (EDF), the original parent of Root Capital, divested of Root Capital in August 1999. At the time of the spin-off, Root Capital entered into an agreement whereby it agreed to pay EDF an annual royalty. Based on the formula for calculating the royalty, Root Capital has incurred an annual liability of \$15,000 to EDF. During 2014, Root Capital paid EDF \$15,000 which was included in "other direct costs" in the accompanying Statements of Functional Expenses. The payment related provisions of the agreement were subject to expiry or renewal in 2015. The Root Capital board elected to terminate, rather than renew and did so in accordance with the process outlined in the agreement. EDF acknowledged and accepted the termination as being sufficient.

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, 2015 and 2014, total retirement benefit expense was \$164,830 and \$153,968, respectively, and is included in "salaries and related benefits" in the accompanying Statements of Functional Expenses.

12. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, 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

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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.

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, 2015 and 2014.

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, 2015 and 2014, Root Capital's mutual funds investments, all Level 1, had a fair value of \$200,720 and \$198,006.

13. TRANSACTIONS WITH RELATED PARTIES

Root Capital's notes payable balance as of December 31, 2015 includes three notes from related parties totaling \$2,150,000. One note is held by an individual who as of December 31, 2015 served as a Root Capital officer. Two other notes are held by two members of Root Capital's Board of Directors. Notes payable balance as of December 31, 2014 included two notes from related parties totaling \$2,050,000. One note was held by a Root Capital officer and one note was held by a member 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 \$20,984 and \$20,850 as of December 31, 2015 and December 31, 2014, respectively.

Root Capital had pledges receivable balance from related parties, specifically certain directors, in the amount of \$33,250 and \$1,017,885 in 2015 and 2014, 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 \$19,039,215 and \$16,144,930 in 2015 and 2014, 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.

	Year ending December 31,	
	2015	2014
FX losses on lending	\$ (2,732,160)	\$ (2,561,967)
FX gains on hedge activity	1,241,704	1,939,951
FX gains on operating activity	<u>14,053</u>	<u>-</u>
Total FX losses	<u>\$ (1,476,403)</u>	<u>\$ (622,016)</u>

The effect of such losses on net assets was 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 2015, Root Capital earned local currency interest premium revenue of \$770,251, reported within interest revenue. In addition, the effect of foreign exchange losses on net assets was partially reduced by releases from a reserve set aside to offset foreign exchange gains and losses. In 2015, Root Capital released \$168,864 from such reserve, reported within net assets released from donor restrictions. Thus, in 2015 after local currency interest premium revenue and reserve releases, Root Capital had net losses of \$537,287 from foreign currency lending and operating activities.

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 2015 and 2014 Root Capital entered into deliverable swap and forward agreements ranging from 1 to 18 months in duration to hedge exposures to the British Pound, Euro, Ghanaian Cedi, Kenyan Shilling and Mexican Peso. 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:

<u>Currency</u>	<u>2015</u>	<u>2014</u>
Euro	\$ 192,354	\$ 1,487,789
Ghanaian Cedi	(259,731)	-
Kenyan Shilling	45,630	-
Mexican Peso	<u>7,123</u>	<u>46,629</u>
Total currency swap	<u>\$ (14,624)</u>	<u>\$ 1,534,418</u>

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15. MANAGEMENT FEES

In 2015 Root Capital recognized \$381,365 of revenue for activities performed as the Company Manager of LAFCo, a Mauritius based Category 1 Global Business License (GBL1) Company which provides working capital to agricultural Small and medium-sized enterprises in sub-Saharan Africa. LAFCo was incorporated on 26 May 2015 and has two shareholders, KfW Development Bank and AgDevCo.

16. OTHER RECEIVABLES

In November 2015 Bank of America placed a temporary hold on an outgoing wire transfer of \$466,178 intended for disbursement to a client in Honduras due to a recent sanction of that client's bank by the Office of Foreign Assets Control (OFAC). Root Capital has made a formal request to OFAC for the release and return of these funds and has engaged counsel experienced with handling similar cases. The current assessment of Root Capital's counsel based on available information is that Root Capital has a strong case for receiving a favorable outcome. This \$466,178 is recorded as Other Assets on the Statement of Financial Position.

17. SUBSEQUENT EVENTS

In preparing these combined financial statements, Root Capital has evaluated events and transactions for potential recognition or disclosure through April 18, 2016, the date the financial statements were available to be issued.