COMBINED FINANCIAL STATEMENTS

ROOT CAPITAL, INC.

FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

ROOT CAPITAL, INC.

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Root Capital, Inc.
Cambridge, Massachusetts

We have audited the accompanying combined financial statements of Root Capital, Inc. (a non-profit organization) and Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural (a Peruvian non-exempt civil association), together "Root Capital", which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Root Capital as of December 31, 2012 and 2011, and the combined changes in their net assets and their combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

Bethesda, Maryland
April 18, 2013

ROOT CAPITAL, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 31,940,488	$ 13,554,190
Cash and cash equivalents: loan loss reserve	6,177,305	5,551,269
Total cash and cash equivalents	38,117,793	19,105,459
Escrow funds held for others	118,883	814,521
Investments (Notes 2 and 10)	6,307,347	6,097,736
Loans receivable, net of noncurrent portion and loan loss allowance of $2,119,820 in 2012 and $1,352,510 in 2011 (Notes 3 and 4)	45,318,937	46,730,898
Interest receivable, net of allowance of $108,223 in 2012 and $98,219 in 2011 (Note 4)	1,039,569	1,026,642
Grants and pledges receivable, net of noncurrent portion (Note 6)	8,950,273	4,635,073
Prepaid expenses and other assets	518,083	321,890
Total current assets	100,370,885	78,732,219
PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Furniture and fixtures	98,493	81,784
Software	425,520	359,258
Leasehold improvements	215,404	215,404
	739,417	656,446
Less: Accumulated depreciation and amortization	(439,622)	(324,808)
Net property, equipment and leasehold improvements	299,795	331,638
NONCURRENT ASSETS		
Loans receivable, net of current portion (Notes 3 and 4)	14,334,291	7,406,608
Grants and pledges receivable, net of current portion (Note 6)	6,096,234	1,200,000
Security deposits	83,378	82,340
Total noncurrent assets	20,513,903	8,688,948
TOTAL ASSETS	**$121,184,583**	**$ 87,752,805**

See accompanying notes to combined financial statements.

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Notes payable, net of noncurrent portion (Note 5)	$ 22,266,576	$ 12,375,599
Subordinated debt, net of noncurrent portion (Note 5)	100,000	-
Loan participation liability, net of allowance of $145 in 2012 and $0 in 2011 (Note 5)	28,955	1,481,766
Escrow funds held for others	118,883	814,521
Deferred rent abatement, net of noncurrent portion (Note 8)	53,669	31,869
Accounts payable and accrued expenses	260,277	192,344
Accrued vacation	249,682	176,820
Accrued interest payable	628,245	496,130
Total current liabilities	23,706,287	15,569,049
NONCURRENT LIABILITIES		
Notes payable, net of current portion (Note 5)	54,966,293	46,364,226
Subordinated debt, net of current portion (Note 5)	4,100,000	4,200,000
Deferred rent abatement, net of current portion (Note 8)	97,061	150,731
Total noncurrent liabilities	59,163,354	50,714,957
Total liabilities	82,869,641	66,284,006
NET ASSETS		
Unrestricted:		
Operating reserve	4,042,589	3,169,016
Board designated for lending capital	4,968,275	2,284,598
Board designated for loan loss reserves	2,710,639	5,551,269
Total unrestricted	11,721,503	11,004,883
Temporarily restricted (Note 7):		
Time	234,617	243,744
Program	16,758,258	6,086,274
Permanent lending capital - donor designated	6,133,898	4,133,898
Loan loss reserve - donor designated	3,466,666	-
Total temporarily restricted	26,593,439	10,463,916
Total net assets	38,314,942	21,468,799
TOTAL LIABILITIES AND NET ASSETS	**$121,184,583**	**$ 87,752,805**

See accompanying notes to combined financial statements.

ROOT CAPITAL, INC.

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Earned revenue -			
Loan interest	$ 6,329,840	$ -	$ 6,329,840
Loan fees	1,072,614	-	1,072,614
Loss on foreign currency lending	(20,597)	-	(20,597)
Less: Allowance for loan loss (Note 4)	(3,322,328)	-	(3,322,328)
Revenue on recovered loans	511,685	-	511,685
Net earned revenue	4,571,214	-	4,571,214
Financial revenue (expense) -			
Interest and investment income (Note 2)	309,508	-	309,508
Less: Interest expense	(1,680,573)	-	(1,680,573)
Net financial revenue (expense)	(1,371,065)	-	(1,371,065)
Net earned and financial revenue	3,200,149	-	3,200,149
Contributions and grants	1,525,830	23,128,486	24,654,316
In-kind contributions	367,661	-	367,661
Net assets released from donor restrictions (Note 7)	6,998,963	(6,998,963)	-
Total revenue	12,092,603	16,129,523	28,222,126
EXPENSES			
Program services:			
Finance	4,686,615	-	4,686,615
Advise	1,981,532	-	1,981,532
Catalyze	1,461,295	-	1,461,295
Total program services	8,129,442	-	8,129,442
Supporting services:			
Management and General	2,519,475	-	2,519,475
Fundraising	727,066	-	727,066
Total supporting services	3,246,541	-	3,246,541
Total expenses	11,375,983	-	11,375,983
Changes in net assets	716,620	16,129,523	16,846,143
Net assets at beginning of year	11,004,883	10,463,916	21,468,799
NET ASSETS AT END OF YEAR	**$ 11,721,503**	**$ 26,593,439**	**$ 38,314,942**

	2011		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Earned revenue -			
Loan interest	$ 5,008,664	$ -	$ 5,008,664
Loan fees	1,092,210	-	1,092,210
Loss on foreign currency lending	(145,232)	-	(145,232)
Less: Allowance for loan loss (Note 4)	(2,264,954)	-	(2,264,954)
Revenue on recovered loans	72,427	-	72,427
Net earned revenue	3,763,115	-	3,763,115
Financial revenue (expense) -			
Interest and investment income (Note 2)	57,083	-	57,083
Less: Interest expense	(1,267,760)	-	(1,267,760)
Net financial revenue (expense)	(1,210,677)	-	(1,210,677)
Net earned and financial revenue	2,552,438	-	2,552,438
Contributions and grants	1,249,033	7,917,355	9,166,388
In-kind contributions	241,646	-	241,646
Net assets released from donor restrictions (Note 7)	5,408,597	(5,408,597)	-
Total revenue	9,451,714	2,508,758	11,960,472
EXPENSES			
Program services:			
Finance	3,582,197	-	3,582,197
Advise	1,251,623	-	1,251,623
Catalyze	1,561,845	-	1,561,845
Total program services	6,395,665	-	6,395,665
Supporting services:			
Management and General	2,182,661	-	2,182,661
Fundraising	659,261	-	659,261
Total supporting services	2,841,922	-	2,841,922
Total expenses	9,237,587	-	9,237,587
Changes in net assets	214,127	2,508,758	2,722,885
Net assets at beginning of year	10,790,756	7,955,158	18,745,914
NET ASSETS AT END OF YEAR	$ 11,004,883	$ 10,463,916	$ 21,468,799

ROOT CAPITAL, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services				Supporting Services			
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and related benefits (Note 9)	$ 2,777,338	$ 651,727	$ 976,339	$ 4,405,404	$ 1,616,691	$ 550,204	$ 2,166,895	$ 6,572,299
Field based consultants	432,709	310,827	93,155	836,691	-	-	-	836,691
Other professional services	168,128	369,520	70,241	607,889	270,652	33,368	304,020	911,909
Travel, meetings and conferences	407,540	442,728	137,625	987,893	107,619	53,886	161,505	1,149,398
Computer software and equipment	97,674	65,397	29,194	192,265	117,832	11,596	129,428	321,693
Supplies, courier and printing	53,443	26,186	8,817	88,446	26,031	6,561	32,592	121,038
Telecommunications	59,258	20,806	19,029	99,093	15,208	7,881	23,089	122,182
Occupancy (Note 8)	270,890	74,496	86,377	431,763	141,143	47,092	188,235	619,998
Bank and credit card fees	75,005	3,679	13,268	91,952	27,741	1,531	29,272	121,224
Other direct costs (Note 8)	40,232	12,343	14,823	67,398	42,807	6,871	49,678	117,076
Depreciation and amortization	49,679	3,823	12,427	65,929	40,809	8,076	48,885	114,814
Subtotal	4,431,896	1,981,532	1,461,295	7,874,723	2,406,533	727,066	3,133,599	11,008,322
Donated professional services	254,719	-	-	254,719	112,942	-	112,942	367,661
TOTAL	**$ 4,686,615**	**$ 1,981,532**	**$ 1,461,295**	**$ 8,129,442**	**$ 2,519,475**	**$ 727,066**	**$ 3,246,541**	**$ 11,375,983**

See accompanying notes to combined financial statements.

ROOT CAPITAL, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services				Supporting Services			
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and related benefits (Note 9)	$ 1,434,645	$ 375,573	$ 938,473	$ 2,748,691	$ 1,320,341	$ 454,714	$ 1,775,055	$ 4,523,746
Field based consultants	1,116,992	461,361	168,893	1,747,246	-	-	-	1,747,246
Other professional services	135,977	35,968	125,104	297,049	323,158	56,544	379,702	676,751
Travel, meetings and conferences	357,657	230,674	158,111	746,442	81,727	71,074	152,801	899,243
Computer software and equipment	63,213	22,202	36,462	121,877	24,935	12,623	37,558	159,435
Supplies, courier and printing	48,745	18,412	19,864	87,021	36,479	8,669	45,148	132,169
Telecommunications	63,329	16,237	21,008	100,574	19,186	10,100	29,286	129,860
Occupancy (Note 8)	206,352	44,791	64,712	315,855	90,733	34,603	125,336	441,191
Bank and credit card fees	27,775	5,206	3,908	36,889	8,807	156	8,963	45,852
Other direct costs (Note 8)	19,944	23,114	10,304	53,362	61,604	6,015	67,619	120,981
Depreciation and amortization	62,670	9,372	14,916	86,958	26,231	4,763	30,994	117,952
Grants	-	910	90	1,000	515	-	515	1,515
Subtotal	3,537,299	1,243,820	1,561,845	6,342,964	1,993,716	659,261	2,652,977	8,995,941
Donated professional services	44,898	7,803	-	52,701	188,945	-	188,945	241,646
TOTAL	**$ 3,582,197**	**$ 1,251,623**	**$ 1,561,845**	**$ 6,395,665**	**$ 2,182,661**	**$ 659,261**	**$ 2,841,922**	**$ 9,237,587**

See accompanying notes to combined financial statements.

ROOT CAPITAL, INC.

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 16,846,143	$ 2,722,885
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	114,814	117,952
Allowance for loan losses	3,322,328	2,264,954
Unrealized (gain) loss on investments	(126,277)	90,707
Realized gain on sales of investments	-	(6,067)
Deferred (benefit) rent abatement	(31,870)	18,879
Present value discount on grants and pledges receivable	226,856	-
(Increase) decrease in:		
Interest receivable	(12,927)	(184,084)
Grants and pledges receivable	(9,438,290)	572,159
Prepaid expenses and other assets	(196,193)	(275,049)
Security deposits	(1,038)	(23,224)
Increase (decrease) in:		
Loan participation liability	(1,452,811)	781,766
Accounts payable and accrued expenses	67,933	(7,824)
Accrued vacation	72,862	74,485
Accrued interest payable	132,115	137,626
Net cash provided by operating activities	9,523,645	6,285,165
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements	(82,971)	(198,360)
Purchases of investments	(83,334)	(2,122,240)
Proceeds from sales of investments	-	3,000,000
Principal payments on loans receivable	111,964,063	95,247,810
Issuance of loans	(120,802,113)	(111,457,474)
Net cash used by investing activities	(9,004,355)	(15,530,264)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(5,509,085)	(10,762,856)
Proceeds from notes payable	24,002,129	28,787,000
Proceeds from subordinated debt	-	1,100,000
Net cash provided by financing activities	18,493,044	19,124,144
Net increase in cash and cash equivalents	19,012,334	9,879,045
Cash and cash equivalents at beginning of year	19,105,459	9,226,414
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 38,117,793**	**$ 19,105,459**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 1,548,458**	**$ 1,130,134**

See accompanying notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Root Capital, Inc. is a non-profit, social investment fund, 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 (see Note 3) ranging generally from $50,000 to $2 million to rural small and growing businesses, especially those businesses not currently reached by commercial lenders. Most of Root Capital, Inc.'s loans can be categorized as follows:

- Short-term trade credit and pre-harvest loans with terms of up to one year which are generally oriented around a harvest or production cycle. These loans are used by borrowers to cover costs of purchasing raw product from their farmer suppliers.
- 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.

Root Capital, Inc.'s lending supports sustainable environmental practices that protect rural ecosystems.

Root Capital, Inc. manages two lending portfolios:

- **The Sustainable Trade Fund (STF)**: Root Capital, Inc. seeks to scale and demonstrate its lending model. The STF includes loans for businesses that export natural products such as coffee, cocoa, nuts, and fresh fruits and vegetables. Within the STF, we identify and finance early-stage businesses and accompany their growth.

- **Frontier Portfolios (FPs)**: Root Capital, Inc. seeks to push the frontier of agricultural lending. The FPs include loans for production of goods for domestic consumption rather than export. The FPs also include loans that seek to achieve particularly high social or environmental impact on rural communities, such as improved food security.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Organization (continued) -

Root Capital, Inc. plays a leadership role in associations in the rural impact investing space. Through active participation in groups like the Aspen Network of Development Entrepreneurs and the Global Impact Investment Network, Root Capital, Inc. helps to draw attention to the market and impact opportunities for sustainable value chain finance; to inspire emulation and replication of financial, social and environmental elements of its model; and to share lessons from its experience.

Root Capital, Inc. aims to accomplish this by partnering with (a) global retailers and importers to facilitate ethical and sustainable supply chains from point of origin in developing countries; (b) local and global financial institutions to channel capital to underserved rural markets; and (c) networks of like-minded social financiers to advance a common agenda for sustainable trade finance and the broader field of finance and business development targeted to small and growing businesses (SGBs). Root Capital, Inc. combines its financials with ACCDER for the purposes of financial statement presentation (see below).

ACCDER (Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural) is a civil association that was incorporated by decree of its founding assembly on September 22, 2011, in accordance with the Civil Code of the Republic of Peru. ACCDER is a socially-oriented organization (although it does not currently enjoy non-profit status) that helps small and medium enterprises gain access to financing and financial training. ACCDER's primary financing partner is Root Capital, Inc. ACCDER is funded primarily by grants from Root Capital, Inc. Given this economic interest, ACCDER is combined with Root Capital, Inc. for audit presentation.

Root Capital, Asociación Civil (A.C.), was incorporated by decree of its founding assembly (whose members include Root Capital, Inc. and an individual) on December 4, 2012, in accordance with the Civil Code of the Federal District of the United Mexican States. Root Capital A.C. functions as an affiliate of Root Capital, Inc. in Mexico, and has applied for tax exempt status. Its primary purpose is to promote the development and sustainable growth of marginalized and economically vulnerable rural communities through the provision of technical assistance to individuals and businesses in such communities to foster their economic and social integration and ability to thrive. The financial activities of this entity will be combined with Root Capital, Inc. during 2013 based on the economic interest between the organizations.

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. and ACCDER, together "Root Capital", in accordance with FASB ASC 958-810, *Not-for-Profit Entities*, *Consolidation*. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Cash and cash equivalents (continued) -

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). Root Capital maintains a portion of their cash balances at financial institutions in non-interest bearing accounts; thereby, all of these cash balances are protected by FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000. Management believes the risk in these situations to be minimal.

Root Capital had approximately $51,485 and $101,654 of cash and cash equivalents on hand and held at financial institutions in foreign countries at December 31, 2012 and 2011, respectively. The majority of funds invested in foreign countries is uninsured.

Escrow funds -

Escrow funds represent amounts that are held separately in accordance with the terms of certain loan receivable agreements (Note 3). As of December 31, 2012 and 2011, total escrow funds were $118,883 and $814,521, respectively.

Investments -

Investments consist of a mutual fund containing 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 and Changes in Net Assets.

Loans receivable and allowance for loan losses -

Loans receivable are stated net of an allowance for loan losses (see Notes 3 and 4). The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectable.

Grants and pledges receivable -

Grants and pledges receivable represent amounts due from donors and are stated at fair value. Management considers all amounts to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

Root Capital, Inc. is a Massachusetts not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. Root Capital, Inc. is not a private foundation.

ACCDER is a civil association incorporated in Peru; the entity has filed for tax-exempt status; however, exemption has not been granted as of the date of this report. During 2012, ACCDER realized a tax liability of $15,608 based on the results of its 2012 activities. Root Capital, A.C. did not realize any tax liability during 2012 as operations did not commence until 2013.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2012 and 2011, Root Capital has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements. IRS Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed. Root Capital does not expect any tax positions to change significantly within the next twelve months.

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 compliance 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 financial statements.

Revenues from interest on loans and investment income are recorded as they accrue. Loan fees are recognized in the year the related loans are closed and are not amortized over the lives of the related loans.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for all uses by Root Capital. As a loan fund, it is important for Root Capital to build unrestricted net assets to maintain a loan loss reserve and a reasonable debt to equity ratio.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Net asset classification (continued) -

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. Root Capital's policy is to calculate the operating reserve as 50% of the ensuing year's budgeted operating deficit before contributions for the Finance programs, 50% of the ensuing year's budgeted operating expenses for the Catalyze program and 50% of the ensuing year's core operating expenses for the Advise program. During 2012, $873,573 was added to operating reserve net assets. During 2011, $975,695 was decreased from operating reserve net assets.

- **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. During 2012, Board designated for lending capital was increased by $2,683,677. During 2011, Board designated for lending capital was decreased by $195,814.

- **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 developed 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. Based on Root Capital’s policy, the loan loss reserve was decreased by $2,840,630 during 2012 and $1,385,636 was added to Board designated for loan loss reserves net assets during 2011.

Temporarily restricted net assets are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. Permanent lending capital is the term Root Capital uses to describe those capital resources which primarily provide a permanent capital base for lending activities, and secondarily assist in meeting debt covenants and providing for potential loan losses. Permanent lending capital is generally not available for operating costs of the Loan Fund. No donor has imposed an obligation on Root Capital to replenish the principal of any gift of permanent lending capital in the event such funds are needed to offset loan losses. Accordingly, donor restricted permanent lending capital awards have been classified as temporarily restricted net assets in the accompanying Statements of Financial Position.

During 2012, Root Capital received contributions totaling $9,400,000 from four major donors specifically designated to cover current and future loan losses. Root Capital classified $3,466,666 of the total as loan loss reserve - donor designated as this amount represented the donor-funded portion of the current loan loss obligation as of December 31, 2012 (the balance is covered under unrestricted loan loss reserve net assets). The remaining balance of the commitments received from these four donors (totaling $5,933,334, or $5,859,037 factoring a net present value discount) has been recorded as program-restricted net assets as of December 31, 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

In-kind contributions -

Root Capital receives contributed services in support of its operating and programmatic activities; donated services (legal fees) have been recorded at fair value as of the date of the gift. The value of these contributions received during 2012 and 2011 totaled $367,661 and $241,646, respectively, and have been recorded as in-kind contributions revenue and donated professional services expense in the accompanying 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.

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 Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. INVESTMENTS

Investments consisted of the following at December 31, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Mutual Fund	$ 6,284,000	$ 6,307,347	$ 6,200,666	$ 6,097,736

Included in interest and investment income are the following during December 31, 2012 and 2011:

	2012	2011
Interest and dividends	$ 183,231	$ 141,723
Unrealized gain (loss) on investments	126,277	(90,707)
Realized gain on sales of investments	-	6,067
TOTAL INTEREST AND INVESTMENT INCOME	$ 309,508	$ 57,083

3. LOANS RECEIVABLE

Root Capital's direct lending activity is its core business. Following is a summary of Root Capital's loans receivable as of December 31, 2012 and 2011, respectively:

	2012		2011	
Type	Number of Loans	Amount	Number of Loans	Amount
Trade credit	127	$ 44,701,613	117	$ 41,856,863
Fixed asset loans	25	4,702,672	32	5,246,010
General working capital	33	9,662,125	18	4,520,570
Pre-harvest credit	11	2,706,638	12	3,866,573
TOTAL	**196**	**$ 61,773,048**	**179**	**$ 55,490,016**

The five largest outstanding loans receivable were approximately 19% of the portfolio as of December 31, 2012 and 2011. The average outstanding loan balance at December 31, 2012 was $315,961 and the average interest rate on the outstanding loan balances at December 31, 2012 was 10.74%. The average outstanding loan balance at December 31, 2011 was $301,512 and the average interest rate on the outstanding loan balances at December 31, 2011 was 10.50%.

Scheduled repayments of loans receivable at December 31, 2012 and 2011 are as follows:

Year Ending December 31,	2012	2011
2012	$ -	$ 48,083,408
2013	47,438,757	1,537,868
2014	3,320,360	927,598
2015	6,255,845	1,006,686
2016	2,616,206	3,934,456
2017	1,691,880	-
2018 and Thereafter	450,000	-
	61,773,048	55,490,016
Less: Allowance for loan losses (Note 4)	(2,119,820)	(1,352,510)
NET LOANS RECEIVABLE	**$ 59,653,228**	**$ 54,137,506**

Guarantee Agreement

Root Capital previously had loan guarantee agreements with the United States Agency for International Development (USAID), which had maximum obligations of $4,000,000 and $2,000,000 from USAID. The guarantees, which backed as much as 50% of an outstanding loan balance, were intended to strengthen Root Capital's ability to finance loans to small and medium agribusinesses and ecotourism businesses located in Africa, Mexico, Guatemala, Nicaragua, Panama, and Peru and thus stimulate economic growth in the targeted countries. Although both guarantees expired in 2008, collection efforts continue. During 2012 and 2011, the Organization recovered $0 and $13,000, respectively, on a loan from one borrower. In accordance with the guarantee agreement, Root Capital was obligated to pay 50% of any amounts recovered to USAID for up to three years after the guarantees expired, less applicable recovery costs.

3. LOANS RECEIVABLE (Continued)

Guarantee Agreement (continued)

In March 2010, Root Capital obtained a loan guarantee agreement with the USAID, which had a maximum obligation of $5,542,500 from USAID. The guarantee backs as much as 50% of an outstanding loan balance, and is intended to strengthen Root Capital's ability to finance loans to non-sovereign small and medium sized enterprises, organizations, or cooperatives in El Salvador, Ghana, Haiti, Indonesia, Liberia, Mongolia, and Tanzania. The loan guarantee expires March 2020. During 2012, a $161,027 claim was submitted to USAID on the guarantee for two loans.

In September 2012, Root Capital obtained a loan guarantee agreement with USAID, which had a maximum obligation of $6,250,000 from USAID. The guarantee backs as much as 50% of an outstanding loan balance, and is intended to strengthen Root Capital's ability to finance loans to non-sovereign small and medium sized enterprises, organizations, or cooperatives in 19 countries in Africa. The loan guarantee expires September 2019.

Committed Current Assets

As of December 31, 2012 and 2011, Root Capital had committed approximately $38,844,388 and $28,173,583, respectively, of current assets (mostly cash and cash equivalents) for future disbursements on existing loan commitments. Root Capital has in place liquidity management policies and procedures to manage the timing of expected disbursements on these loans.

Foreign Currency Lending

Root Capital makes loans in foreign currencies to accommodate clients whose products are not exported and who do not have access to U.S. currency. The current portfolio includes loans made in several foreign currencies; the U.S. Dollar ($) equivalents as of December 31, 2012 and 2011 are as follows:

Currency	2012	2011
U.S. Dollar	$ 57,978,061	$ 52,459,927
Euro	2,016,625	2,342,066
British Pound	493,876	208,983
Kenyan Shilling	595,262	298,105
Tanzanian Shilling	248,442	180,935
Ugandan Shilling	27,612	-
Ghanian Cedi	337,359	-
Peruvian Nuevo Sol	75,811	-
TOTAL LOANS RECEIVABLE	**$ 61,773,048**	**$ 55,490,016**

4. ALLOWANCE FOR LOAN LOSSES

An allowance for loan losses is an estimate of expected losses of loan principal. The allowance for loan losses is based on expected losses as determined under Root Capital's risk rating policy (see Note 1).

4. ALLOWANCE FOR LOAN LOSSES (Continued)

The allowance for loan losses consisted of the following as of December 31:

	2012	2011
Balance, beginning of year	$ 1,352,510	$ 1,457,770
Allowance for loan losses	3,322,328	2,264,954
Loan participation loan loss reserve	145	-
Loans written off	(2,555,163)	(2,370,214)
BALANCE, END OF YEAR	**$ 2,119,820**	**$ 1,352,510**

Root Capital also records an allowance for potential losses of interest receivable. Root Capital nets the provision associated with such allowances against interest revenue on loans in the accompanying Statements of Activities and Changes in Net Assets. The balance of the allowance for losses of interest receivable was $108,223 and $98,219 as of December 31, 2012 and 2011, respectively.

5. NOTES PAYABLE AND SUBORDINATED DEBT

As of December 31, 2012 and 2011, Root Capital had 172 and 135 outstanding notes payable to lenders (investors), respectively. Notes payable bear a weighted average interest rate of 2.33% and 2.32% as of December 31, 2012 and 2011, respectively, and mature at various dates from 2012 to 2022. All notes payable are unsecured.

Included in notes payable as of December 31, 2012 and 2011 is $4,200,000 of subordinated debt from six foundations. Interest of 0% to 3% is due annually on each note, with lump-sum payments of principal due on or before the maturity dates between January 2013 and May 2017. The notes are subordinate to all senior creditors. Also included in notes payable are two loans from Board members; the balance of the loans totaled $2,145,910 and $2,146,053 at December 31, 2012 and 2011, respectively, including accrued interest of $20,910 and $21,153. The terms of the note are consistent with terms of notes payable tjat Root Capital has with other non-related parties.

A summary of loans payable, including subordinated debt, as of December 31, 2012 and 2011, including significant investors, is as follows:

	2012		2011	
Investor	Interest Rate	Outstanding Principal	Interest Rate	Outstanding Principal
A	1.89% to 2.69%	$ 22,785,716	2.58% to 2.69%	$ 19,642,858
B	1.0%	10,000,000		-
C	2.5% to 3.0%	9,000,000	2.5% to 3.0%	9,000,000
D	1.0% to 2.5%	8,000,000	1.0%	6,000,000
E	3.0%	3,000,000	3.0%	3,000,000
All other investors	0% to 4.0%	28,647,153	0% to 4.5%	25,296,967
		$ 81,432,869		$ 62,939,825

5. NOTES PAYABLE AND SUBORDINATED DEBT (Continued)

As of December 31, 2012 and 2011, the outstanding principal of the notes payable was $81,432,869 and $62,939,825, respectively; maturities are as follows:

Year Ending December 31,	2012	2011
2012	$ -	$ 12,375,599
2013	22,366,576	14,284,368
2014	19,101,965	17,037,858
2015	6,270,000	4,525,000
2016	15,997,000	13,717,000
2017	7,697,328	1,000,000
2018 and Thereafter	10,000,000	-
	$ 81,432,869	$ 62,939,825

The loan agreements contain various covenants, which among other things, place restrictions on Root Capital's ability to incur additional indebtedness and require Root Capital to maintain certain financial ratios. As of the date of this report, Root Capital was in compliance with all loan covenants.

Loan Participation

The loan participation liability represents a syndicated loan/participation agreement between Root Capital and another investor, net of allowance of $145 in 2012, as follows:

Year Ending December 31,	2012		2011			
	Participation Liability	Outstanding Balance	Participation Liability	Outstanding Balance	2012 Participation	2011 Participation
Loan Participant A	$ -	$ -	$ 968,340	$ 1,936,680	- %	50.0 %
Loan Participant B Agreement 1	-	-	237,384	621,900	- %	38.2 %
Loan Participant B Agreement 2	-	-	217,842	542,200	- %	40.2 %
Loan Participant B Agreement 3	28,955	161,021	58,200	388,998	18.0 %	15.0 %
	$ 28,955	$ 161,021	$ 1,481,766	$ 3,489,778		

6. 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 award.

6. GRANTS AND PLEDGES RECEIVABLE (Continued)

As of December 31, 2012 and 2011, grants and pledges receivable were due as follows:

Year Ending December 31,	2012	2011
2012	$ -	$ 4,635,073
2013	8,950,273	1,200,000
2014	5,604,107	-
2015	518,983	-
2016	200,000	-
Total grants and pledges receivable	15,273,363	5,835,073
Less: Current portion	(8,950,273)	(4,635,073)
Less: discount (3.25%)	(226,856)	-
NET NONCURRENT GRANTS AND PLEDGES RECEIVABLE	**$ 6,096,234**	**$ 1,200,000**

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012 and 2011:

	2012	2011
Time restricted	$ 234,617	$ 243,744
Program restricted	16,758,258	6,086,274
Permanent lending capital - donor designated	6,133,898	4,133,898
Loan loss reserve - donor designated	3,466,666	-
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 26,593,439**	**$ 10,463,916**

The following temporarily restricted net assets were released from donor restrictions at December 31, 2012 and 2011, by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2012	2011
Satisfaction of time restrictions	$ 358,077	$ 1,160,165
Satisfaction of program restrictions	6,640,886	4,248,432
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 6,998,963**	**$ 5,408,597**

8. COMMITMENTS

During 2010, Root Capital entered into an operating lease for its principal office space in Cambridge, Massachusetts. The lease began in January, 2010, with monthly payments of $16,383, beginning in July, 2010, and increasing annually as defined in the agreement. Root Capital is also responsible for its pro-rata share of the building's operating expenses and real estate taxes. The lease agreement expires in June, 2015. As Root Capital received six months of free rent (and has an obligation to pay an annual escalation), generally accepted accounting principles require that the total rent commitment should be recognized on a straight-line basis over the term of the lease.

Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is being deferred. Such amount will be amortized over the term of the lease agreement. The total deferred rent (benefit) expense recognized during the years ended December 31, 2012 and 2011 was $(31,870) and $18,879, respectively. As of December 31, 2012 and 2011, the total deferred rent liability aggregated $150,730 and $182,600, respectively.

On December 28, 2011, Root Capital entered into a two year operating sublease with ARUP Services New York Limited for additional space on the 4th floor of the same building it occupies in Cambridge. The agreement term commenced on March 1, 2012, and requires a lease payment of $11,482 per month. Root Capital is also responsible for its prorata share of the building's operating expenses and real estate taxes.

Root Capital also leases office space under short-term lease agreements in Kenya, Mexico, Costa Rica and Haiti. ACCDER rents office space under a three-year operating lease agreement.

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

Year Ending December 31,	
2013	$ 632,196
2014	467,364
2015	214,750
2016	51,628
2017	31,145
2018 and Thereafter	15,664
	$ 1,412,747

Occupancy expense for the years ended December 31, 2012 and 2011 (including utilities and maintenance) totaled $619,998 and $441,191, respectively.

EcoLogic Development Fund, Inc.

EcoLogic Development Fund, Inc. (EDF) spun-off Root Capital in August, 1999, but retained control over the election of its Board of Directors. Since 1993, EDF has provided grants and technical assistance to local grassroots organizations that share its commitment to community empowerment and environmental conservation. In April, 2006, the Board membership of Root Capital was changed to a self-perpetuating membership of individuals independent of EDF.

8. COMMITMENTS (Continued)

EcoLogic Development Fund, Inc. (continued)

Root Capital entered into an agreement whereby it pays EDF an amount equal to the greater of $15,000 or ten percent of Root Capital's net financing operating revenues as defined in the agreement. During 2012 and 2011, Root Capital paid EDF $15,000 according to the agreement, which is included in "other direct costs" in the accompanying Statements of Functional Expenses. The agreement expires in 2015.

9. RETIREMENT PLAN

Root Capital has implemented a defined contribution retirement plan covering all eligible employees who become eligible to participate on the first day of employment. Root Capital contributes up to 3% of each employee's annual salary. During the years ended December 31, 2012 and 2011, total retirement expense was $109,705 and $74,197, respectively, and is included in "salaries and related benefits" in the accompanying Statements of Functional Expenses.

10. 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 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, 2012 and 2011, respectively.

- 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.

10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, Root Capital's investments as of December 31, 2012 and 2011:

	Level 1	Level 2	Level 3	Total December 31, 2012
Asset Category:				
Mutual Fund	$ 6,307,347	$ -	$ -	$ 6,307,347

	Level 1	Level 2	Level 3	Total December 31, 2011
Asset Category:				
Mutual Fund	$ 6,097,736	$ -	$ -	$ 6,097,736

11. SUBSEQUENT EVENTS

In preparing these combined financial statements, Root Capital has evaluated events and transactions for potential recognition or disclosure through April 18, 2013, the date the financial statements were issued.