Combined Financial Statements and
Report of Independent Certified Public Accountants

ROOT CAPITAL, INC.

December 31, 2017 and 2016

ROOT CAPITAL, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Root Capital, Inc.

We have audited the accompanying combined financial statements of Root Capital, Inc., which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Root Capital, Inc. as of December 31, 2017 and 2016, 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.

Grant Thornton LLP

Boston, Massachusetts
April 26, 2018

ROOT CAPITAL, INC.
Combined Statements of Financial Position
As of December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 36,692,544	$ 26,141,971
Escrow funds held for others	4,470,218	549,983
Short-term investment	210,885	205,948
Loans receivable, net (Notes 4 and 5)	53,719,993	72,150,636
Collateral dependent impaired loans receivable, net (Notes 4 and 5)	2,615,913	1,088,175
Interest receivable, net (Note 5)	1,245,015	1,224,217
Fair value of foreign currency hedges (Note 14)	-	78,746
Grants and pledges receivable, net (Note 7)	2,693,118	2,317,589
Guarantees receivable	2,053,152	943,217
Prepaid expenses and other assets	638,511	856,165
Property, equipment and leasehold improvements, net	804,067	504,845
Security deposits	178,795	177,183
Total assets	$ 105,322,211	$ 106,238,675
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 537,459	$ 523,838
Notes payable (Note 6)	73,181,749	79,661,600
Subordinated debt (Note 6)	9,156,000	8,880,000
Escrow funds held for others	4,470,218	549,983
Accrued interest payable	988,431	998,337
Fair value of foreign currency hedges (Note 14)	242,507	-
Other liabilities	495,716	649,818
Total liabilities	89,072,080	91,263,576
NET ASSETS		
Unrestricted	10,654,322	10,598,615
Temporarily restricted (Note 9)	5,595,809	4,376,484
Total net assets	16,250,131	14,975,099
Total liabilities and net assets	$ 105,322,211	$ 106,238,675

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

ROOT CAPITAL, INC.
Combined Statements of Activities
For the year ended December 31, 2017 (with summarized comparative information for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
OPERATING REVENUE				
Earned revenue				
Loan interest	$ 6,346,426	$ -	$ 6,346,426	$ 6,672,869
Loan fees	1,105,997	-	1,105,997	1,219,059
Provision for loan loss	(3,708,100)	-	(3,708,100)	(9,315,651)
Management fees - loan services	456,086	-	456,086	645,109
Fee-for-service revenue	514,405	-	514,405	451,953
Foreign currency translation (Note 14)	135,341	-	135,341	(600,674)
Other revenue	-	-	-	37,633
Net earned operating revenue (loss)	4,850,155	-	4,850,155	(889,702)
Financial revenue (expense)				
Interest and investment income (Note 3)	114,286	-	114,286	110,143
Interest expense	(1,974,977)	-	(1,974,977)	(2,307,648)
Net financial expense	(1,860,691)	-	(1,860,691)	(2,197,505)
Net earned and financial revenue (loss)	2,989,464	-	2,989,464	(3,087,206)
Contributions and grants	3,754,668	7,756,251	11,510,919	8,283,243
In-kind contributions	198,226	-	198,226	685,906
Net assets released from donor restrictions	6,536,925	(6,536,925)	-	-
Total operating revenue	13,479,283	1,219,326	14,698,609	5,881,943
OPERATING EXPENSES				
Program services				
Finance	6,007,152	-	6,007,152	6,322,919
Advise	2,500,967	-	2,500,967	3,755,796
Catalyze	1,579,606	-	1,579,606	2,269,985
Total program services	10,087,725	-	10,087,725	12,348,700
Supporting services				
Management and general	2,359,110	-	2,359,110	3,031,428
Fundraising	976,741	-	976,741	872,423
Total supporting services	3,335,851	-	3,335,851	3,903,851
Total operating expenses	13,423,576	-	13,423,576	16,252,551
Other non-operating expense (Note 16)	-	-	-	466,178
Total expenses	13,423,576	-	13,423,576	16,718,730
Changes in net assets	55,707	1,219,326	1,275,033	(10,836,787)
Net assets at beginning of year	10,598,615	4,376,483	14,975,099	25,811,885
Net assets at end of year	$ 10,654,322	$ 5,595,809	$ 16,250,133	$ 14,975,099

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

ROOT CAPITAL, INC.
Combined Statement of Activities
For the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Earned revenue			
Loan interest	$ 6,672,869	$ -	$ 6,672,869
Loan fees	1,219,059	-	1,219,059
Provision for loan loss	(9,315,651)	-	(9,315,651)
Management fees - LAFCO	645,109	-	645,109
Fee-for-service revenue	451,953	-	451,953
Foreign currency translation (Note 14)	(600,674)	-	(600,674)
Other revenue (expense)	37,633	-	37,633
Net earned operating revenue (loss)	(889,702)	-	(889,702)
Financial revenue (expense)			
Interest and investment income (Note 3)	110,143	-	110,143
Interest expense	(2,307,648)	-	(2,307,648)
Net financial expense	(2,197,505)	-	(2,197,505)
Net earned and financial revenue (loss)	(3,087,206)	-	(3,087,206)
Contributions and grants	1,382,380	6,900,863	8,283,243
In-kind contributions	685,906	-	685,906
Net assets released from donor restrictions	7,030,016	(7,030,016)	-
Reclassification due to change in donor intent (Note 9)	12,010,565	(12,010,565)	-
Total operating revenue	18,021,661	(12,139,718)	5,881,943
OPERATING EXPENSES			
Program services			
Finance	6,322,919	-	6,322,919
Advise	3,755,796	-	3,755,796
Catalyze	2,269,985	-	2,269,985
Total program services	12,348,700	-	12,348,700
Supporting services			
Management and general	3,031,428	-	3,031,428
Fundraising	872,423	-	872,423
Total supporting services	3,903,851	-	3,903,851
Total operating expenses	16,252,551	-	16,252,551
Other non-operating expense (Note 16)	466,178	-	466,178
Total expenses	16,718,730	-	16,718,730
Changes in net assets	1,302,931	(12,139,718)	(10,836,787)
Net assets at beginning of year	9,295,684	16,516,201	25,811,885
Net assets at end of year	$ 10,598,615	$ 4,376,483	$ 14,975,099

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, 2017

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

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, 2016

	Program Services				Supporting Services			
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	$ 4,191,178	$ 1,558,184	$ 1,529,566	$ 7,278,928	$ 1,776,974	$ 697,111	$ 2,474,085	$ 9,753,013
Professional services	960,083	1,189,898	241,056	2,391,037	706,210	36,051	742,261	3,133,298
Travel, conferences, and workshops	357,133	699,127	226,266	1,282,526	80,494	41,239	121,733	1,404,259
Occupancy and telecommunications	418,178	220,208	141,342	779,728	175,689	65,554	241,243	1,020,971
Other direct costs	396,347	88,379	131,755	616,481	292,061	32,468	324,529	941,010
Total	$ 6,322,919	$ 3,755,796	$ 2,269,985	$ 12,348,700	$ 3,031,428	$ 872,423	$ 3,903,851	$ 16,252,551

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 1,275,033	$ (10,836,787)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	92,068	90,087
Provision for loan loss	3,708,100	9,315,651
Provision for interest loss	144,875	1,373,958
Loss on sale of investments	(4,937)	(1,275)
Rent abatement liability	(6,243)	(83,483)
Present value discount on grants and pledges	(17,133)	5,612
Unrealized and realized losses on foreign currency (Note 14)	(135,341)	600,674
Contributions converted from debt	(718,622)	-
(Increase) decrease in		
Interest receivable	(165,673)	1,149,239
Grants and pledges receivable	(358,396)	521,764
Guarantees and other receivables	(1,109,936)	(49,710)
Prepaid expenses and other assets	217,653	(27,067)
Security deposits	(1,613)	3,942
Increase (decrease) in		
Accounts payable and accrued expenses	13,621	(1,484,269)
Other liabilities	(147,860)	(1,136,055)
Net cash provided by (used in) operating activities	2,785,596	(557,719)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and leasehold improvements	(391,290)	(313,583)
Principal payments and recoveries on loans receivable	133,432,637	133,099,335
Issuance of loans	(119,781,235)	(117,472,667)
Net cash provided by investing activities	13,260,112	15,313,086
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(15,449,135)	(28,010,557)
Proceeds from issuance of notes payable	9,954,000	10,435,630
Proceeds from subordinated debt	-	3,700,000
Net cash used by financing activities	(5,495,135)	(13,874,927)
Net increase in cash and cash equivalents	10,550,573	880,439
Cash and cash equivalents at the beginning of the year	26,141,971	25,261,532
Cash and cash equivalents at the end of the year	$ 36,692,544	$ 26,141,971
Supplemental cash flow information		
Interest paid	$ 1,886,097	$ 2,262,220

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

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 as one of the following:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined financial statements are presented on the accrual basis of accounting, and represent the combined activity of Root Capital, Inc., ACCDER, Root Capital Mexico A.C., and Root Capital Guatemala A.C., together "Root Capital." All intercompany transactions have been eliminated in combination.

Cash and Cash Equivalents

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

Root Capital held $ 461,102 and $414,701 of USD and foreign currency cash and cash equivalents at financial institutions in foreign countries at December 31, 2017 and 2016, 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 $40,662,762 and $26,191,954 at December 31, 2017 and 2016, respectively.

Escrow Funds

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

Short-term Investment

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

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

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

In 2016 Root Capital updated its allowance for loan losses policy to incorporate inputs that are based on a complete loss history and that better reflect Root Capital's unique circumstances, such as high concentration in one underlying product (coffee) and seasonality of underlying products supporting the loans. The new policy relies on a combination of a new risk rating model, historical loss analysis, and detailed collateral analysis which has resulted in an update of the rates used to allow for probable losses in the loan portfolio in 2016 (see Note 5).

Transfer of Financial Assets

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

Grants and Pledges Receivable

Grants and pledges receivable represent amounts due from donors and are stated at their net present value (discounted value of grants and pledges). Management considers all amounts to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established.

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

Property, Equipment and Leasehold Improvements

Root Capital records purchased property and equipment with an acquisition value of $5,000 or more at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, generally three years (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, Root Capital Mexico A.C., and Root Capital Guatemala A.C. are organized and operated under the regulations of their respective countries, Peru, Mexico and Guatemala. Root Capital Mexico A.C. is a registered charitable organization in Mexico. Root Capital Guatemala A.C. is a registered charitable organization in Guatemala. 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. Root Capital believes it has taken no uncertain tax positions.

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 that actual expenses are 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.

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

Operating Revenue and Expenses

Revenue from operations includes earned revenue from lending-related activities, contributions and grants, fee-for-service, and in-kind contributions. Lending-related activities include loan disbursements and repayments, servicing fees, and miscellaneous bank charges and interest. Operating expenses include direct program expenses and supporting services expenses as reported on the Statement of Functional Expenses. All other revenue and expenses are reported on a separate line on the Statement of Activities as non-operating revenue or expense.

Net Asset Classification

The net assets are reported as follows:

Unrestricted net assets are those net resources that bear no donor restrictions. Unrestricted net assets, also referred to as Lending Net Assets, are a key input in the measure of the debt to equity ratio that is included in covenants with various investors.

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

In-kind Contributions

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

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. INTEREST ON BANK DEPOSITS AND INVESTMENT INCOME

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

	2017	2016
Interest and dividends	$ 112,649	$ 108,868
Unrealized gain on investments	1,476	1,471
Realized gain (loss) on sales of investments	161	(196)
Total interest and investment income	$ 114,286	$ 110,143

4. LOANS RECEIVABLE AND COLLATERAL DEPENDENT IMPAIRED LOANS RECEIVABLE

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

	2017		
	Number of Loans	Outstanding Principal	Loan Loss Allowance
Loans receivable	153	$ 60,684,102	$ 7,172,030
Collateral dependent impaired loans receivable	14	4,761,620	2,145,707
Total loans receivable	167	$ 65,445,722	$ 9,317,737

	2016		
	Number of Loans	Outstanding Principal	Loan Loss Allowance
Loans receivable	224	$ 82,177,606	$ 10,274,202
Collateral dependent impaired loans receivable	5	1,557,948	469,772
Total loans receivable	229	$ 83,735,554	$ 10,743,974

The five largest outstanding loans receivable were 19% of the portfolio as of December 31, 2017 and 2016. The average outstanding loan balance at December 31, 2017 was $391,891. The average outstanding loan balance at December 31, 2016 was $365,658.

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

	2017	2016
Year Ending December 31		
2018 and earlier	$ 40,196,698	$ 61,467,343
2019	13,037,573	10,573,179
2020	3,748,617	4,033,035
2021	4,998,372	6,261,997
2022 and thereafter	3,464,462	1,400,000
	65,445,722	83,735,554
Less: allowance for loan losses (Note 5)	(9,317,737)	(10,743,974)
Deferred loan origination costs, net of origination fees	207,921	247,231
Net loan receivable	$ 56,335,906	$ 73,238,811

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:

Currency	2017	2016
U.S Dollar	$ 62,573,493	$ 75,326,556
Euro	1,784,237	5,603,974
Ghanaian Cedi	210,337	1,137,189
Kenyan Shilling	382,448	848,432
Mexican Peso	495,207	819,403
Total loans receivable	$ 65,445,722	$ 83,735,554

Guarantee Agreements

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

Guarantor and Facility	Amount of Obligation	Term of Coverage	Outstanding Loan Balances	Claims in 2016	Claims in 2017
USAID Development Credit Authority 50% Maximum Guarantee Facility (40% for loans approved after 9/30/2011) for SME Agribusiness in Select LA/African Countries	Maximum obligations of $5,542,500	Through March 2020	$ 1,579,077	$ 205,343	$ 107,037
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of $6,250,000	Through September 2019	9,212,794	153,166	-
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of $7,700,000	Through June 2026	2,168,812	-	-
USAID Development Credit Authority 50% Maximum Guarantee Facility Madagascar Loan Guarantee	Maximum obligations of $500,000	Through Sept 2019	1,000,000	-	-

Loan Participation

Root Capital enters into loan participation agreements with third-parties who wish to enter the impact investing space. Root Capital continues to service the participating interests acquired by those third parties for an agreed upon servicing fee. Total loan participation sales were $6,020,500 and $2,317,392 in 2017 and 2016, respectively and are reflected as a reduction of loans receivable.

5. ALLOWANCE FOR LOAN LOSSES

Impaired Loans

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

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

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

Loans with payments due in full at maturity

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

Loans with amortization schedules and/or scheduled interest payments

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

Restructured loans

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

Non-Accrual and Write-off

Loans classified as Substandard or Doubtful are automatically placed on non-accrual status from the first day of the month following the month they are downgraded. Authorized senior lending staff may also place other loans on non-accrual status as deemed appropriate on a per-loan basis.

Non-accrual status does not change the contractual obligations of the borrower, nor does it change the interest rate. Scheduled payments of loans on non-accrual status are applied to accrued interest and principal obligations. Accrual status for a particular borrower's loans resumes if the borrower is upgraded to a risk classification of Special Mention or better based on satisfactory performance under modified loan terms and receipt of at least one scheduled payment.

Allowance for Loan Losses

In 2016, Root Capital adopted a new policy for estimating loan losses. Under the new policy, loans are grouped in pools, based on shared characteristics. The allowance for loan loss rates are reviewed and updated at least annually. Loans in the Current pool use a general reserve rate that is adjusted based on whether the loan is secured with collateral or not secured. The probable loss for loans in the Large, Secured, Impaired pool and loans that are collateral dependent is calculated at the individual loan level, based on collateral value. No allowance is recorded for loans in the Large, Secured, Impaired pool if collateral values for those loans exceed the outstanding principal balance. The probable loss for all other impaired loans is calculated using historical loss rates. Collateral dependent loans are impaired loans with an outstanding principal balance greater than $100,000 and whose repayment is expected solely from the liquidation of the underlying collateral. In calculating the allowance for loan losses, Root Capital includes only hard collateral, which consists of real estate, equipment and machinery. Although Root Capital obtains other types of collateral such as inventory and trade receivables, those types of collateral are generally more difficult to track and assign value, therefore management has excluded them from the calculation of the allowance for loan losses.

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

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

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

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

	2017	2016
Balance, beginning of year	$ 10,743,974	$ 5,407,604
Write-offs	(7,160,153)	(6,094,893)
Recoveries	2,025,816	2,115,612
Provision for loan losses	3,708,100	9,315,651
Balance at December 31, 2017	$ 9,317,737	$ 10,743,974

Summary of loan risk composition as of December 31:

2017	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Current	$ 38,452,864	58 %	$ 898,976	2 %
Current restructured	8,723,451	14	855,677	10
Special mention	7,617,187	12	1,908,305	25
Substandard	3,986,017	6	2,263,580	57
Doubtful	1,904,583	3	1,245,492	65
Collateral dependent	4,761,620	7	2,145,707	45
Total	$ 65,445,722	100 %	$ 9,317,737	14 %

2016	Outstanding Principal	Percent of Portfolio	Loan Loss Allowance	Provision Rate
Current	$ 52,408,229	63 %	$ 1,156,138	2 %
Current restructured	9,096,374	11	966,508	11
Special mention	9,792,050	12	2,702,640	28
Substandard	7,709,847	9	3,627,981	47
Doubtful	3,171,106	4	1,820,935	57
Collateral dependent	1,557,948	2	469,772	30
Total	$ 83,735,554	100 %	$ 10,743,974	13 %

Loans are written off when it is determined that the likelihood and/or timing of repayment are highly uncertain.

Restructured Loans

A loan restructure is a modification to loan terms that results from the borrower's inability to perform under its existing loan terms due to a business weakness that is not temporary (more than 90 days).

The table below shows restructured loan balances and related allowance as of December 31. For the purposes of calculating the allowance for loan losses, loans that are in the process of being restructured are also included in the total restructured loans:

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

2016 Portfolio	Outstanding Principal	Percent of Portfolio	Allowance for Loan Loss
Current	$ 6,095,375	7 %	$ 721,743
Special mention	4,257,714	5	546,120
Substandard	5,256,931	6	2,348,454
Doubtful	819,403	1	402,528
Collateral dependent	577,562	1	224,676
Total	$ 17,006,985	20 %	$ 4,243,521

Guarantees and Recoveries

As previously disclosed in Note 4, certain loans issued by Root Capital are guaranteed fully or partially by third parties such as USAID's Development Credit Authority (DCA). A guarantee receivable is established upon write-off of the guaranteed loan. Other recoveries that are not related to guarantees are recognized on a cash basis. All recoveries are presented as a reduction to gross write-offs. The following is a breakdown of total recoveries recognized as of December 31:

	2017	2016
Recoveries		
USAID DCA Guarantees	$ 657,926	$ 850,347
Other	1,367,890	1,265,265
Total	$ 2,025,816	$ 2,115,612

Allowance for Interest Losses

Root Capital also records an allowance for potential losses on interest receivable for all loans through the date that they were placed on non-accrual. Root Capital presents the provisioning expense associated with such allowances against interest revenue on loans in the accompanying Statements of Activities. The balance of the allowance for losses on interest receivable was $365,925 and $728,778 as of December 31, 2017 and 2016, respectively.

6. NOTES PAYABLE, SUBORDINATED DEBT & LINES OF CREDIT

Notes Payable

Root Capital had 274 and 262 outstanding notes payable as of December 31, 2017 and 2016 respectively. The notes mature at various dates from 2018 to 2028 and are unsecured.

Subordinated Debt

As of December 31, 2017 there is $9,156,000 of subordinated debt from eight investors. One of the subordinated notes for $2,300,000 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, 2016 is $8,880,000 of subordinated debt from eight investors. Interest payments are due annually on the subordinated debt, with lump-sum payments of principal due on or before the maturity dates between November 2019 and October 2026. The notes are subordinate to all senior creditors.

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

Investor	2017 Outstanding Principal	2016 Outstanding Principal
Corporation	$ 16,150,000	$ 16,000,000
Foundation	22,541,249	30,379,871
Government/Multilateral	19,620,000	17,980,000
Individual	17,576,500	16,529,729
Other	6,450,000	7,652,000
	$ 82,337,749	$ 88,541,600

Top Five Investors	2017 Outstanding Principal	2016 Outstanding Principal
1	$ 18,000,000	$ 16,000,000
2	15,000,000	15,000,000
3	10,000,000	15,000,000
4	2,300,000	3,000,000
5	2,000,000	2,000,000
All other investors	35,037,749	37,541,600
	$ 82,337,749	$ 88,541,600

As of December 31, 2017 maturities on the outstanding principal of the notes payable were as follows:

Year Ending December 31,	
2018	$ 17,515,326
2019	9,022,249
2020	18,074,500
2021	765,000
2022 and thereafter	36,960,674
	$ 82,337,749

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

As of December 31, 2017, the portfolio-at-risk as defined by the covenant with one investor was 16.3%, against a covenant threshold maximum of 7%. Root Capital obtained a waiver from the investor. There was no impact to any of the other existing covenants.

Lines of Credit

Root Capital employs lines of credit to meet seasonal demand to agricultural borrowers and as a reserve to meet loan demand. As of December 31, 2017, the total commitment of the two lines of credit was $6,000,000. The lines of credit are unsecured. During 2017, a $3,000,000 third secured line of credit expired and was not renewed. As of December 31, 2017 and December 31, 2016, all lines of credit were unutilized. No interest expense was incurred on the lines of credit in 2017 and 2016.

7. GRANTS AND PLEDGES RECEIVABLE

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

	2017	2016
One year or less	$ 2,134,295	$ 1,591,633
One to five years	585,000	735,000
Total grants and pledges receivable	2,719,295	2,326,633
Less: discounts	(26,177)	(9,044)
Net grants and pledges receivable	$ 2,693,118	$ 2,317,589

As of December 31, 2017 and December 31, 2016 unrecorded conditional grants were $14,413,786 and $10,214,454, respectively. The conditions generally relate to milestones that are included in the various grant agreements.

8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

As of December 31, 2017 Root Capital had the following balances in property, equipment, and leasehold improvements:

		2017	2016
Leasehold improvements	5 - 7 Years	$ 82,399	$ 297,803
Property and equipment	3 - 5 Years	124,015	206,420
Computer software and hardware	3 Years	1,273,720	893,978
		1,480,134	1,398,201
Less: accumulated depreciation		676,067	893,356
Leasehold improvements, property, and equipment, net		$ 804,067	$ 504,845

Depreciation expense was $92,068 and $77,939 in 2017 and 2016, respectively.

9. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Program restricted	$ 5,595,809	$ 4,376,484
Total temporarily restricted net assets	$ 5,595,809	$ 4,376,484

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

	2017	2016
Satisfaction of program restriction	$ 6,536,925	$ 7,030,016
Reclassification due to change in donor intent	-	12,010,565
Net assets released from donor restrictions	$ 6,536,925	$ 19,040,581

In 2016, Root Capital reclassified the lending net assets and loan loss reserve from temporarily restricted net assets to unrestricted net assets after reviewing the restrictions and seeking donor confirmation that the underlying restrictions had been satisfied.

10. COMMITMENTS

Leases

In August 2015, Root Capital entered into a commercial lease for its principal office space in Cambridge, Massachusetts. The lease expires in 2022. In accordance with the lease, as is common practice in such agreements, Root Capital is also responsible for its pro-rata share of the building's operating expenses and real estate taxes in connection with the lease. At the lease commencement date, Root Capital received a two month rent-free period. Subsequent periods contain annual rent escalations beginning after the twelfth month from the lease commencement date. The lease contains a renewal option for additional five year term under substantially similar conditions. The difference between the actual monthly rent payments and the total lease liability calculated on a straight line basis is recorded as an increase/decrease to deferred rent liability, adjusted over the lease term. The deferred rent liability was $99,229 in 2017 and $92,983 in 2016.

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:

2018	$ 709,029
2019	689,375
2020	498,489
2021	509,629
2022	400,669
2023 and thereafter	20,671
Total commitments	$ 2,827,862

Occupancy expense for the years ended December 31, 2017 and 2016 (including utilities and maintenance) totaled $987,581 and $1,020,971, 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. In 2015 the Root Capital Board of Directors elected to terminate the agreement in accordance with the provisions outlined in the agreement. During 2016, Root Capital paid EDF a final payment of $15,000.

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, 2017 and 2016, Root Capital contributed $142,409 and $158,524, respectively, to the employee defined contribution retirement plan, which is included in "Personnel" expense in the accompanying Statements of Functional Expenses.

12. FAIR VALUE MEASUREMENT

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

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, 2017 and 2016.

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, 2017 and 2016, Root Capital's mutual funds investments, all Level 1, had a fair value of $210,885 and $205,879, respectively.

13. TRANSACTIONS WITH RELATED PARTIES

Root Capital's notes payable balance as of December 31, 2017 includes three notes from related parties totaling $175,000 and are held by three members of Root Capital's Board of Directors. The notes payable balance as of December 31, 2016 included four notes from related parties totaling $2,205,000 and these notes are held by three members of Root Capital's Board of Directors. The terms of the notes payable to related parties are consistent with terms of notes payable to non-related parties. Accrued interest on notes from related parties was $1,196 and $21,238 as of December 31, 2017 and December 31, 2016, respectively.

Root Capital had a pledges receivable balance from related parties, specifically certain directors and an officer, in the amount of $751,000 and $381,750 as of December 31, 2017 and 2016, respectively. Contributions from related parties were $794,523 and $656,275 in 2017 and 2016, 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 $5,813,825 and $14,047,443 in 2017 and 2016, 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 exposures. The resulting foreign exchange losses are reported as foreign currency translation on the Statement of Activities.

	2017	2016
FX gains (losses) on lending	$ 833,912	$ (656,574)
FX gains (losses) on hedge activity	(770,769)	57,343
FX gains (losses) on operating activity	72,198	(1,443)
Total FX gains (losses)	$ 135,341	$ (600,674)

The FX losses were partially reduced by additional interest revenue earned from local currency interest rate premiums charged on underlying loans. Root Capital's local currency pricing policy employs local benchmark rates, namely central bank and treasury-bill rates, forward rates, and anticipated hedging and other costs, to determine applicable interest rate premiums. In 2017, Root Capital earned local currency interest premium revenue of $73,927, reported within interest and investment income. In 2017, Root Capital released $78,647 from a temporarily restricted grant that was raised to offset FX losses. Thus, after local currency interest premium revenue and grant releases, Root Capital had net foreign currency gains of $287,915 in 2017 and net foreign currency losses of $106,412 in 2016.

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 2017 and 2016 Root Capital entered into derivative swap and forward agreements ranging from 1 to 24 months in duration to hedge exposures to the Euro, Ghanaian Cedi, 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:

	2017			2016		
Currency	**Notional (FX)**	**Notional (USD)**	**Fair Value (USD)**	**Notional (FX)**	**Notional (USD)**	**Fair Value (USD)**
Euro	€ (3,572,192)	$ (4,138,500)	$ (225,179)	€ (6,047,419)	$ (6,588,384)	$ 157,512
Ghanaian Cedi	GHC (568,199)	(113,406)	(471)	GHC (4,087,340)	(844,234)	(54,342)
Kenyan Shilling	KES (30,757,175)	(271,749)	(16,857)	KES (72,876,356)	(656,301)	(24,424)
	Totals	$ (4,523,655)	$ (242,507)	Totals	$ (8,088,919)	$ 78,746

15. MANAGEMENT FEES

In 2017 and 2016 Root Capital recognized $456,086 and $645,109 respectively of revenue for activities performed as the Company Manager of Lending for the African Farming Company (LAFCo), a Mauritius based Category 1 Global Business License (GBL1) Company which provides working capital to agricultural small and medium-sized enterprises in sub-Saharan Africa. LAFCo was incorporated on May 26, 2015 and has two shareholders, KfW Development Bank and AgDevCo.

16. NON OPERATING EXPENSE

In 2016, total non-operating expense includes a one-time charge-off of $466,178 which represents funds that were placed on an Office of Foreign Assets Control (OFAC) hold by Bank of America in November 2015. These funds had been intended for disbursement to a client in Honduras. The client's bank had been sanctioned by OFAC at the time of the attempt to wire the funds. Although Root Capital's counsel is continuing to pursue the return of the funds by OFAC, management has reviewed available information and concluded that it is not sufficient to support continuing to show the amount 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 26, 2018, the date the financial statements were available to be issued.