

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

Root Capital, Inc.

December 31, 2014 and 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Root Capital, Inc.

Report on the financial statements

We have audited the accompanying combined financial statements of Root Capital, Inc. (the "Organization"), which comprise the combined statements of financial position as of December 31, 2014, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements. The combined financial statements of the Organization as of and for the year ended December 31, 2013 were audited by other auditors whose report, dated April 16, 2014, expressed an unqualified opinion on those 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization'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 consolidated 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, 2014, and the results of its operations, its functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

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

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

Boston, Massachusetts
April 30, 2015

ROOT CAPITAL, INC.
Combined Statements of Financial Position
As of December 31, 2014 and 2013

ASSETS		
	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 26,771,733	\$ 19,373,270
Escrow funds held for others	1,928,261	1,331,107
Investments (Note 3)	198,006	9,045,149
Loans receivable, net of non current portion and allowance for loan loss (Notes 4 and 5)	56,295,291	48,273,754
Interest receivable, net (Note 5)	2,351,981	1,308,008
Fair value of currency swap (Note 13)	1,534,418	(377,634)
Grants and pledges receivable, net (Note 7)	7,724,285	10,614,965
Prepaid expenses and other assets	<u>1,439,291</u>	<u>886,125</u>
Total current assets	<u>98,243,266</u>	<u>90,454,744</u>
NONCURRENT ASSETS		
Property, equipment and leasehold improvements, net	135,583	225,900
Loans receivable, net of current portion and allowance for loan loss (Notes 4 and 5)	42,208,330	22,337,525
Grants and pledges receivable, net of current portion (Note 7)	591,282	2,475,574
Security deposits	<u>82,783</u>	<u>92,012</u>
Total noncurrent assets	<u>43,017,978</u>	<u>25,131,011</u>
TOTAL ASSETS	\$ <u>141,261,244</u>	\$ <u>115,585,755</u>
LIABILITIES AND NET ASSETS		
	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Notes payable, net of noncurrent portion (Note 6)	\$ 18,066,542	\$ 15,397,824
Subordinated debt, net of noncurrent portion (Note 6)	625,000	1,650,000
Line of credit, net of noncurrent portion	7,000,000	-
Loan participation liability	-	20,829
Escrow funds held for others	1,928,261	1,331,107
Accounts payable and accrued expenses	1,587,190	1,219,730
Accrued interest payable	762,054	542,837
Other liabilities	<u>471,422</u>	<u>432,601</u>
Total current liabilities	<u>30,440,469</u>	<u>20,594,928</u>
NONCURRENT LIABILITIES		
Notes payable, net of current portion (Note 6)	73,761,921	56,879,587
Subordinated debt, net of current portion (Note 6)	1,400,000	1,000,000
Line of credit, net of current portion	3,000,000	-
Other non-current liabilities (Note 9)	-	32,632
Total noncurrent liabilities	<u>78,161,921</u>	<u>57,912,219</u>
Total liabilities	<u>108,602,390</u>	<u>78,507,147</u>
NET ASSETS		
Unrestricted		
Operating reserve	4,728,523	4,728,523
Board designated for lending capital	2,695,338	4,443,386
Board designated for loan loss reserves	<u>4,845,773</u>	<u>2,720,924</u>
Total unrestricted	<u>12,269,634</u>	<u>11,892,833</u>
Total temporarily restricted (Note 8)	<u>20,389,220</u>	<u>25,185,775</u>
Total net assets	<u>32,658,854</u>	<u>37,078,608</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>141,261,244</u>	\$ <u>115,585,755</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Earned revenue			
Loan interest	\$ 8,678,848	\$ -	\$ 8,678,848
Loan fees	1,570,459	-	1,570,459
Provision for loan loss, net of recoveries	(4,647,699)	-	(4,647,699)
Contracted revenue	258,620	-	258,620
Foreign currency translation	(622,016)	-	(622,016)
Other revenue	<u>107,014</u>	<u>-</u>	<u>107,014</u>
Net earned revenue	<u>5,345,226</u>	<u>-</u>	<u>5,345,226</u>
Financial expense			
Interest and investment income (Note 3)	129,223	-	129,223
Interest expense	<u>(2,056,594)</u>	<u>-</u>	<u>(2,056,594)</u>
Net financial expense	<u>(1,927,371)</u>	<u>-</u>	<u>(1,927,371)</u>
Net earned and financial revenue	3,417,855		3,417,855
Contributions and grants	2,479,846	4,741,418	7,221,264
In-kind contributions	270,485	-	270,485
Net assets released from donor restrictions	<u>9,537,973</u>	<u>(9,537,973)</u>	<u>-</u>
Total revenue	15,706,159	(4,796,555)	10,909,604
EXPENSES			
Program services			
Finance	5,804,560	-	5,804,560
Advise	4,142,426	-	4,142,426
Catalyze	<u>2,257,433</u>	<u>-</u>	<u>2,257,433</u>
Total program services	<u>12,204,419</u>	<u>-</u>	<u>12,204,419</u>
Supporting services			
Management and general	2,595,970	-	2,595,970
Fundraising	<u>528,970</u>	<u>-</u>	<u>528,970</u>
Total supporting services	<u>3,124,940</u>	<u>-</u>	<u>3,124,940</u>
Total expenses	15,329,359	-	15,329,359
Changes in net assets	376,800	(4,796,555)	(4,419,756)
Net assets at beginning of year	<u>11,892,834</u>	<u>25,185,775</u>	<u>37,078,609</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,269,634</u>	<u>\$ 20,389,220</u>	<u>\$ 32,658,853</u>

ROOT CAPITAL, INC.
Combined Statement of Activities
For the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Earned revenue			
Loan interest	\$ 6,354,437	\$ -	\$ 6,354,437
Loan fees	1,169,988	-	1,169,988
Provision for loan loss, net of recoveries	(2,838,780)	-	(2,838,780)
Foreign currency translation	(210,913)	-	(210,913)
Net earned revenue	<u>4,474,732</u>	<u>-</u>	<u>4,474,732</u>
Financial revenue (expense)			
Interest and investment income (Note 3)	188,679	-	188,679
Interest expense	(1,773,908)	-	(1,773,908)
Net financial expense	<u>(1,585,229)</u>	<u>-</u>	<u>(1,585,229)</u>
Net earned and financial revenue	2,889,503		2,889,503
Contributions and grants	1,899,845	14,403,140	16,302,985
In-kind contributions	333,671	-	333,671
Net assets released from donor restrictions	<u>9,127,471</u>	<u>(9,127,471)</u>	<u>-</u>
Total revenue	14,250,490	5,275,669	19,526,159
EXPENSES			
Program services			
Finance	5,382,391	-	5,382,391
Advise	3,578,096	-	3,578,096
Catalyze	2,141,760	-	2,141,760
Total program services	<u>11,102,247</u>	<u>-</u>	<u>11,102,247</u>
Supporting services			
Management and general	2,441,915		2,441,915
Fundraising	534,998	-	534,998
Total supporting services	<u>2,976,913</u>	<u>-</u>	<u>2,976,913</u>
Total expenses	14,079,160		14,079,160
Changes in net assets before other item	171,330	5,275,669	5,446,999
OTHER ITEM			
De-obligated funds (Note 8)	-	(6,683,333)	(6,683,333)
Changes in net assets	171,330	(1,407,664)	(1,236,334)
Net assets at beginning of year	<u>11,721,503</u>	<u>26,593,439</u>	<u>38,314,942</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,892,833</u>	<u>\$ 25,185,775</u>	<u>\$ 37,078,608</u>

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

	Program Services				Supporting Services			Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits (Note 10)	\$ 3,484,076	\$ 1,428,359	\$ 1,544,829	\$ 6,457,264	\$ 1,764,300	\$ 416,566	\$ 2,180,865	\$ 8,638,129
Field based consultants	555,453	335,350	76,943	967,746	1,711	708	2,418	970,164
Other professional services	480,018	1,511,971	218,319	2,210,308	323,142	17,295	340,437	2,550,745
Travel, meetings and conferences	438,246	612,617	193,838	1,244,701	135,060	37,684	172,743	1,417,444
Computer software and equipment	143,624	76,381	50,728	270,733	58,467	21,485	79,953	350,686
Supplies, courier and printing	47,492	25,835	12,867	86,194	30,203	4,506	34,709	120,903
Telecommunications	60,045	20,561	19,547	100,153	13,384	4,332	17,717	117,870
Occupancy (Note 9)	290,847	105,604	72,001	468,452	122,777	8,789	131,566	600,018
Bank and credit card fees	63,321	23,940	20,851	108,112	10,704	1,882	12,586	120,698
Other direct costs (Note 9)	191,358	(471)	33,915	224,802	108,543	9,815	118,358	343,160
Depreciation and amortization	50,080	2,279	13,595	65,954	27,679	5,908	33,587	99,541
TOTAL	\$ 5,804,560	\$ 4,142,426	\$ 2,257,433	\$ 12,204,419	\$ 2,595,970	\$ 528,970	\$ 3,124,940	\$ 15,329,359

ROOT CAPITAL, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2013

	Program Services				Supporting Services			Total Expenses
	Finance	Advise	Catalyze	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits (Note 10)	\$ 3,249,612	\$ 1,551,704	\$ 1,450,450	\$ 6,251,766	\$ 1,704,953	\$ 375,556	\$ 2,080,509	\$ 8,332,275
Field based consultants	499,024	311,967	47,199	858,190			-	858,190
Other professional services	487,647	760,905	166,650	1,415,202	309,586	34,784	344,370	1,759,572
Travel, meetings and conferences	500,457	664,113	231,588	1,396,158	87,375	53,776	141,151	1,537,309
Computer software and equipment	127,077	61,554	45,670	234,301	58,214	20,238	78,452	312,753
Supplies, courier and printing	34,496	26,696	7,481	68,673	28,978	2,361	31,339	100,012
Telecommunications	58,563	28,552	22,539	109,654	12,493	4,402	16,895	126,549
Occupancy (Note 9)	307,882	136,900	127,457	572,239	142,518	28,418	170,936	743,175
Bank and credit card fees	42,814	10,183	10,469	63,466	14,569	487	15,056	78,522
Other direct costs (Note 9)	39,361	20,423	19,645	79,429	6,619	8,065	14,684	94,113
Depreciation and amortization	35,458	5,099	12,612	53,169	76,610	6,911	83,521	136,690
TOTAL	\$ 5,382,391	\$ 3,578,096	\$ 2,141,760	\$ 11,102,247	\$ 2,441,915	\$ 534,998	\$ 2,976,913	\$ 14,079,160

ROOT CAPITAL, INC.
Combined Statement of Cash Flows
For the years ended December 31, 2014 and 2013

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2014</u>	<u>2013</u>
Changes in net assets	\$ (4,419,754)	\$ (1,236,333)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	138,569	136,690
Provision for loan loss	6,291,880	3,369,664
Provision for interest loss	508,438	137,003
Unrealized loss on investments	39,875	35,431
Realized loss on sales of investments	(16,818)	6,204
Rent abatement benefit	(64,430)	(53,668)
Present value discount on grants and pledges	(76,738)	(146,400)
Unrealized and realized losses on foreign currency	796,015	210,913
(Increase) decrease in:		
Interest receivable	(1,277,874)	(405,442)
Grants and pledges receivable	4,851,711	2,102,368
Guarantees and other receivables	(760,507)	(20,564)
Prepaid expenses and other assets	(131,615)	(347,478)
Security deposits	9,228	(8,634)
Increase (decrease) in:		
Loan participation liability	(20,829)	(8,126)
Accounts payable and accrued expenses	(234,453)	759,453
Other liabilities	272,476	33,081
Net cash provided by operating activities:	<u>5,905,174</u>	<u>4,564,162</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and leasehold improvements	(48,054)	(62,795)
Purchase of investments	-	(7,779,437)
Proceeds from sales of investments	8,900,000	5,000,000
Principal payments on loans receivable	141,686,193	108,082,904
Issuance of loans	<u>(177,672,802)</u>	<u>(122,243,898)</u>
Net cash used by investing activities:	<u>(27,134,662)</u>	<u>(17,003,226)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(22,623,650)	(27,186,653)
Proceeds from issuance of notes payable	51,251,601	22,431,195
Payments on subordinated debt	-	(1,550,000)
Net cash provided (used) by financing activities	<u>28,627,952</u>	<u>(6,305,458)</u>
Net increase (decrease) in cash and cash equivalents	7,398,463	(18,744,522)
Cash and cash equivalents at the beginning of year	<u>19,373,271</u>	<u>38,117,793</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 26,771,734</u></u>	<u><u>\$ 19,373,271</u></u>
Supplemental cash flow information:		
Interest paid	\$ 1,737,149	\$ 1,859,316

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF ORGANIZATION

Nature of Operations

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 4) ranging generally from \$50,000 to \$4 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 into one of the following:

- Short-term lines of credit with terms of up to one year which are generally oriented around a harvest or production cycle. These lines of credit 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.

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

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

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

Basis of Organization

Root Capital, Inc. combines its financials with Asociación Capacitadora y Catalizadora de Desarrollo Empresarial Rural (ACCDER) and Root Capital Asociación Civil (A.C.) for the purposes of financial statement presentation. ACCDER 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 for-profit socially-oriented organization that helps small and medium enterprises gain access to financing and financial training. ACCDER's primary financing partner is Root Capital, Inc. through funding grants. Given this relationship, ACCDER is combined with Root Capital, Inc. for financial statement presentation purposes.

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF ORGANIZATION - Continued

Root Capital, Asociación Civil (A.C.), is a non-profit civil association that 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 was granted tax- exempt status in 2013. 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 have been combined with Root Capital, Inc. beginning in 2013 based on the economic interest between the organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Cash and cash equivalents

Root Capital considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Included in cash and cash equivalents as of December 31, 2014 are donor designated loan loss reserves of \$5,466,667 and board designated loan loss reserves of \$4,845,773.

Root Capital held \$543,380 and \$119,286 of USD and foreign currency and cash equivalents at financial institutions in foreign countries at December 31, 2014 and 2013, respectively. The majority of funds on deposit in foreign countries is 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 \$26,271,733 and \$18,905,280 at December 31, 2014 and 2013, respectively.

Escrow funds

As a condition of certain tripartite lending agreements, Root Capital will hold in escrow short-term funds in accordance with the terms of these agreements. As of December 31, 2014 and 2013, total escrow funds were \$1,928,261 and \$1,331,107, 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.

Loans receivable and allowance for loan losses

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfer of financial assets

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

Grants and pledges receivable

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

Property, equipment and leasehold improvements

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

Income taxes

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net asset classification

The net assets are reported as follows:

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

- Operating reserve represents funds available to carry on the operations of Root Capital.
- Board designated for loan loss reserves represent amounts designated by the Board of Directors to provide for potential loan losses. The Board of Directors has maintained a policy to restrict certain funds to supplement the allowance for loan losses equal to 10% of the outstanding loans receivable balance (see Note 4). This serves as a liquidity reserve, providing a security enhancement to investors.
- Board designated for lending capital represents amounts set aside to provide a capital base for lending activities. Root Capital maintains a policy of committing unrestricted net assets in excess of those needed to fund operating and loan loss reserves for lending capital.

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

In-kind contributions

Root Capital receives in-kind contributions in support of the organization's operating and programmatic activities. In-kind contributions consist primarily of legal services, and are recorded at fair value as of the date of the gift as in-kind services revenue and as in-kind services expense in the accompanying combined financial statements.

Use of estimates

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the 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.

NOTE 3 - INTEREST AND INVESTMENTS INCOME

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 152,280	\$ 230,314
Unrealized loss on investments	(39,875)	(35,431)
Realized gain (loss) on sales of investments	<u>16,818</u>	<u>(6,204)</u>
Total interest and investment income	<u>\$ 129,223</u>	<u>\$ 188,679</u>

NOTE 4 - LOANS RECEIVABLE

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

<u>Portfolio</u>	<u>2014</u>		<u>2013</u>	
	<u>Number of Loans</u>	<u>Amount</u>	<u>Number of loans</u>	<u>Amount</u>
Frontier Portfolio	42	\$ 7,925,073	28	\$ 3,455,861
Sustainable Trade Fund	225	95,199,323	201	68,420,035
Total	<u>267</u>	<u>\$ 103,124,396</u>	<u>229</u>	<u>\$ 71,875,896</u>

The five largest outstanding loans receivable were approximately 14% and 15% of the portfolio as of December 31, 2014 and 2013, respectively. The average outstanding loan balance at December 31, 2014 was \$386,234 and the average interest rate on the outstanding loan balances was 9.97%. The average outstanding loan balance at December 31, 2013 was \$313,869 and the average interest rate on the outstanding loan balances was 10.26%.

ROOT CAPITAL, INC.
Notes to Combined Financial Statements - Continued
December 31, 2014 and 2013

NOTE 4 - LOANS RECEIVABLE - Continued

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

Year ending December 31	2014	2013
2015 and earlier	\$ 60,916,065	\$ 57,301,967
2016	16,568,658	4,873,240
2017	8,316,187	2,883,109
2018	5,175,805	3,867,580
2019	8,424,033	2,950,000
2020 and thereafter	3,723,648	-
	103,124,396	71,875,896
Less: allowance for loan losses (Note 5)	(4,620,775)	(1,642,251)
Net loan receivable	\$ 98,503,621	\$ 70,233,645

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 portfolio includes loans made in several foreign currencies as listed below with the U.S. Dollar (\$) equivalent as of December 31 as follows:

Currency	2014	2013
U.S Dollar	\$ 81,745,852	\$ 62,192,994
Euro	16,023,608	7,323,919
British Pound	-	302,849
Kenyan Shilling	698,239	465,740
Tanzanian Shilling	605,368	331,948
Ugandan Shilling	537,294	379,745
Ghanaian Cedi	1,818,172	773,876
Senegalese Franc	-	54,968
Rwandan Franc	-	49,857
Colombian Peso	62,263	-
Guatemalan Quetzal	1,158,699	-
Mexican Peso	474,901	-
Total loans receivable	\$ 103,124,396	\$ 71,875,896

NOTE 4 - LOANS RECEIVABLE - Continued

The following table summarizes Root Capital's foreign exchange gains and losses on average outstanding foreign currency loan portfolio balances of \$16,144,930 and \$5,194,259 in 2014 and 2013, respectively. After giving effect to offsetting gains and losses from hedging, additional losses were incurred primarily in local, "soft" currency exposures. The effect of such losses on net assets was partially reduced by additional interest revenue earned from higher interest rates charged on underlying loans, reported within interest revenue. Root Capital's local currency pricing policy employs local benchmark rates, namely central bank and treasury-bill rates, to determine applicable interest rates.

	<u>Year ending December 31,</u>	
	<u>2014</u>	<u>2013</u>
FX gains (losses) on lending	\$ (2,561,967)	\$ 67,862
FX gains (losses) on hedge activity	<u>1,939,951</u>	<u>(278,775)</u>
Total FX losses	<u>\$ (622,016)</u>	<u>\$ (210,913)</u>

Guarantee Agreements

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

<u>Guarantor and Facility</u>	<u>Amount of Obligation</u>	<u>Term of Coverage</u>	<u>Claims in 2013</u>	<u>Claims in 2014</u>
USAID Development Credit Authority 50% Maximum Guarantee Facility (40% for loans approved after 9/30/2011) for SME Agribusiness in Select LA/African Countries	Maximum obligations of \$5,542,500	Through March 2020	\$ 84,453	\$ 178,276
USAID Development Credit Authority 50% Maximum Guarantee Facility for African Agricultural Financing	Maximum obligations of \$6,250,000	Through September 2019	\$ -	\$ 27,579
USAID Development Credit Authority Guarantee Facility for Coffee Cooperatives	Maximum obligations of \$7,700,000	Through June 2026	\$ -	-

NOTE 4 - LOANS RECEIVABLE - Continued

Loan Participation

In 2014, Root Capital entered into a loan participation agreement (the “Agreement”) with a for-profit impact investor (the “Investor”). Under the terms of the Agreement, the Investor would fund the loan participation program through cash and a note payable. The Investor pre-approved loans and borrowers that could be included in the loan participation. Each participation under this Agreement is accompanied by a participation certificate signed by Root Capital and the Investor. Root Capital continues to service the Investor’s participating interest and the Investor has agreed to pay a servicing fee of 1% on the average outstanding participation interest.

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

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is an estimate of expected losses of loan principal due to non-performance on the part of our clients and is determined under Root Capital’s risk rating policy. The allowance for loan losses is presented on the Statement of Financial Position as a reduction of the loan receivable balance. All outstanding loans are risk rated on a regular basis, based on performance factors related to product, management, buyer, and context. A quantitative and qualitative risk rating score as well as a delinquency classification is used to systematically classify the risk level of each loan.

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

	2014		
	Sustainable Trade Fund	Frontier	Total
Balance, beginning of year	\$ 1,506,459	\$ 135,792	\$ 1,642,251
Provision for loan losses	5,442,712	849,168	6,291,880
Write-offs	<u>(2,865,055)</u>	<u>(448,301)</u>	<u>(3,313,356)</u>
Balance at December 31, 2014	<u>\$ 4,084,117</u>	<u>\$ 536,659</u>	<u>\$ 4,620,775</u>

NOTE 5 - ALLOWANCE FOR LOAN LOSSES - Continued

	2013		
	Sustainable Trade Fund	Frontier	Total
Balance, beginning of year	\$ 1,723,195	\$ 396,625	\$ 2,119,820
Provision for loan losses	3,460,647	(90,983)	3,369,664
Write-offs	(3,677,383)	(169,850)	(3,847,233)
Balance at December 31, 2013	\$ 1,506,459	\$ 135,792	\$ 1,642,251

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 beginning immediately after a missed payment date, unless such payment is received within five days of the due date, or as otherwise determined by performance indicators other than delinquency.

Borrower performance is monitored on a regular basis by Root Capital lending staff, based on financial and other information that may be required from borrowers. In some instances, third party contractors provide the required reporting. Loans classified as current are risk rated every two months, or as soon as deterioration in credit quality is noted. Loans classified as non-current (special mention, substandard, and doubtful) are managed more closely through a monthly risk review process to determine adequacy of risk ratings.

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

Loans due in full at maturity -

- Loans are downgraded to Special Mention at 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.

Amortizing loans -

- Loans are downgraded to Special Mention at 45 days since last scheduled payment;
- Loans are downgraded to Substandard at 90 days since the last scheduled payment
- Loans are downgraded to Doubtful at 270 days since the last scheduled payment;
- Loans are written off at 360 days since the last scheduled payment.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES - Continued

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

When the conditions for resuming accrual status have been met, the risk review committee considers the non-accrual loan for a risk classification upgrade to Special Mention or Current. Interest accrual resumes on the first day of the month following the month for which the risk classification is upgraded.

Summary of loan risk composition as of December 31:

2014

<u>Sustainable Trade Fund</u>	<u>Outstanding Principal</u>	<u>Percent of Portfolio</u>	<u>Loan Loss Allowance</u>	<u>Provision Rate</u>
Current	\$ 82,840,624	87.0%	\$ 852,503	0.90%
Special Mention	8,198,991	8.6%	676,377	0.71%
Substandard	2,948,630	3.1%	1,371,644	1.44%
Doubtful	1,211,079	1.3%	1,183,594	1.24%
Total	\$ 95,199,324	100.0%	\$ 4,084,118	4.29%
<u>Frontier</u>	<u>Outstanding Principal</u>	<u>Percent of Portfolio</u>	<u>Loan Loss Allowance</u>	<u>Provision Rate</u>
Current	\$ 5,227,420	66.0%	\$ 72,446	0.91%
Special Mention	1,942,945	24.5%	97,190	1.23%
Substandard	546,158	6.9%	236,740	2.99%
Doubtful	208,549	2.6%	130,283	1.64%
Total	\$ 7,925,072	100.0%	\$ 536,659	6.77%
Total - All Portfolios	\$ 103,124,396	100.0%	\$ 4,620,777	4.5%

ROOT CAPITAL, INC.
Notes to Combined Financial Statements - Continued
December 31, 2014 and 2013

NOTE 5 - ALLOWANCE FOR LOAN LOSSES - Continued

2013

<u>Sustainable Trade Fund</u>	<u>Outstanding Principal</u>	<u>Percent of Portfolio</u>	<u>Loan Loss Allowance</u>	<u>Provision Rate</u>
Current	\$ 61,554,635	90.0%	\$ 418,258	0.61%
Special Mention	5,782,987	8.5%	431,126	0.63%
Substandard	850,674	1.2%	425,337	0.62%
Doubtful	231,738	0.3%	231,738	0.34%
Total	\$ 68,420,034	100.0%	\$ 1,506,459	2.20%

<u>Frontier</u>	<u>Outstanding Principal</u>	<u>Percent of Portfolio</u>	<u>Loan Loss Allowance</u>	<u>Provision Rate</u>
Current	\$ 2,621,485	75.9%	\$ 36,591	1.06%
Special Mention	662,857	19.2%	42,579	1.23%
Substandard	116,552	3.4%	29,138	0.84%
Doubtful	54,968	1.6%	27,484	0.80%
Total	\$ 3,455,862	100.1%	\$ 135,792	3.93%

Total - All Portfolios	\$ 71,875,896	100.0%	\$ 1,642,251	2.3%
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Loans are written off when it is determined that there is little or no chance of payment from the borrower, that the expense of inducing the borrower to surrender assets or remit payment exceeds the value of the loan in question, or once loans reach the established delinquency threshold. Delinquency write-off thresholds are determined by loan type with loans due in full at maturity being written off after 270 days of delinquency and amortizing loans after 360 days.

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

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

*Restructured loans are reserved at 10%

NOTE 5 - ALLOWANCE FOR LOAN LOSSES - Continued

Restructured loans

A loan is classified as a troubled debt restructuring if Root Capital, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date, or a partial forgiveness of debt.

The modifications to these loans include extended repayment terms, deferred payments and/or interest rate reductions. Management applies a ten percent provisioning rate for troubled debt restructures and performs an analysis of the allowance for loan losses to determine appropriateness.

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

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

NOTE 5 - ALLOWANCE FOR LOAN LOSSES - Continued

<u>2013 Portfolio</u>	<u>Outstanding Principal</u>	<u>Percent of Portfolio</u>	<u>Allowance for Loan Loss</u>
Sustainable Trade Fund			
Current	\$ 1,143,031	1.6%	\$ 114,303
Doubtful	231,738	0.3%	231,738
Special Mention	3,987,534	5.5%	341,353
Substandard	550,601	0.0%	275,300
	<u>\$ 5,912,904</u>	<u>7.5%</u>	<u>\$ 962,695</u>
Frontier			
Current	\$ 365,255	0.5%	\$ 25,310
Doubtful	-	0.0%	-
Special Mention	323,434	0.4%	32,343
Substandard	-	0.0%	-
	<u>\$ 688,689</u>	<u>1.0%</u>	<u>\$ 57,653</u>
Grand Total	<u>\$ 6,601,593</u>	<u>8.4%</u>	<u>\$ 1,020,349</u>

Allowance for Interest Losses

Root Capital also records an allowance for potential losses on interest receivable for loans classified as substandard or doubtful through the date it was placed on non-accrual. Root Capital nets the provision expense associated with such allowances against interest revenue on loans in the accompanying Statements of Activities. The balance of the allowance for losses on interest receivable was \$191,213 and \$61,558 as of December 31, 2014 and 2013.

NOTE 6 - NOTES PAYABLE, SUBORDINATED DEBT & LINES OF CREDIT

Notes Payable

Root Capital had 196 and 150 outstanding notes payable as of December 31, 2014 and 2013 respectively. Notes payable had a weighted average interest rate of 2.28% and 2.22% as of December 31, 2014 and 2013, respectively, and mature at various dates from 2015 to 2024. All notes payable are unsecured.

Subordinated Debt

Included in notes payable as of December 31, 2014 is \$2,025,000 of subordinated debt from three foundations. Included in notes payable as of December 31, 2013 is \$2,650,000 of subordinated debt from four foundations. Interest of 0% to 1% is due annually on this subordinated debt, with lump-sum payments of principal due on or before the maturity dates between March 2015 and May 2017. The notes are subordinate to all senior creditors.

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

<u>Investor</u>	<u>2014</u>		<u>2013</u>	
	<u>Interest Rate</u>	<u>Outstanding Principal</u>	<u>Interest Rate</u>	<u>Outstanding Principal</u>
A	1.89% to 2.65%	\$ 20,000,000	1.89% to 2.69%	\$ 19,928,574
B	1.00%	15,000,000	1.00%	10,000,000
C	2.50%	12,000,000	2.5% to 3.0%	9,000,000
D	3.71%	6,000,000	1.0% to 2.5%	4,000,000
E	1.0% to 2.5%	4,000,000	3.71%	6,000,000
All other investors	0% to 4.00%	36,853,463	0% to 3.25%	25,998,837
		<u>\$ 93,853,463</u>		<u>\$ 74,927,411</u>

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

<u>Year Ending December 31,</u>	
2015	\$ 18,438,189
2016	29,337,091
2017	17,928,186
2018	6,275,000
2019	3,075,000
2020 and thereafter	18,799,997
	<u>\$ 93,853,463</u>

NOTE 6 - NOTES PAYABLE, SUBORDINATED DEBT & LINES OF CREDIT - Continued

The debt agreements contain various covenants that require Root Capital to maintain certain financial ratios. Those covenants place restrictions on Root Capital's activities including its ability to secure debt investment and lending funds. The most restrictive of those covenants is the restriction on Root Capital's debt to equity leverage, which cannot exceed 5:1. As of December 31, 2014, Root Capital was in compliance with all loan covenants.

Lines of Credit

In 2014 Root Capital opened four lines of credit with a combined limit of \$10,000,000. As of December 31, 2014 there was no unused balance on the lines of credit. Included in the outstanding balance is a \$3,000,000 fully collateralized line of credit from Bank of America. The interest on all four lines of credit is LIBOR plus between 200 to 225 basis points, for an effective rate of 4.525% on the average balance for 2014.

NOTE 7 - GRANTS AND PLEDGES RECEIVABLE

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

In 2014 Root Capital received a multi-year grant from USAID of \$1,948,157. This grant is part of larger cooperative agreements between Root Capital, USAID, and third party coffee companies to support coffee farmer resilience initiatives in Latin America. Funding under this grant is on a cost reimbursement basis. Root Capital has followed the appropriate accounting guidance for recording government grants by recognizing a receivable of \$311,636, which represents expenses incurred under this grant in 2014. The balance under this grant will be recognized after 2014 in accordance with incurred expenses.

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

	<u>2014</u>	<u>2013</u>
One year or less	\$ 7,724,285	\$ 12,595,995
One to five years	<u>595,000</u>	<u>575,000</u>
Total grants and pledges receivable	8,319,285	13,170,995
Less: Current portion	(7,724,285)	(10,614,965)
Less: Discounts	<u>(3,718)</u>	<u>(80,456)</u>
Net noncurrent grants and pledges receivable	<u>\$ 591,282</u>	<u>\$ 2,475,574</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Time restricted	\$ -	\$ 3,177,397
Program restricted	8,388,655	11,007,813
Permanent lending capital - donor designated	6,533,898	6,533,898
Loan loss reserve - donor designated	<u>5,466,667</u>	<u>4,466,667</u>
Total temporarily restricted net assets	<u>\$ 20,389,220</u>	<u>\$ 25,185,775</u>

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

	<u>2014</u>	<u>2013</u>
Satisfaction of time restriction	\$ 3,177,397	\$ 1,658,396
Satisfaction of program restriction	<u>6,360,576</u>	<u>7,469,075</u>
Net assets released from donor restrictions	<u>\$ 9,537,973</u>	<u>\$ 9,127,471</u>

During the year ended December 31, 2013, certain donors elected to de-obligate funding commitments made in previous years totaling \$6,683,333. The funding was de-obligated due to changes in donor giving priorities and adverse market conditions that affected Root Capital's growth, neither of which could have been determined at the time the revenue was originally recorded.

NOTE 9 - COMMITMENTS

Leases

During 2010, Root Capital entered into an operating lease for its principal office space in Cambridge, Massachusetts. The lease expires in July 2015. Root Capital is also responsible for its pro-rata share of the building's operating expenses and real estate taxes. At lease commencement date, Root Capital received a six month free rent period. Subsequent periods contained annual rent escalations beginning after the twelve month from lease commencement date. Accordingly, the difference between the actual monthly rent payment and the rent calculations is recorded as deferred rent liability, and adjusted over the lease term. During the years ended December 31, 2014 and 2013, the amount of deferred rent benefit recognized was \$64,430 and \$53,668, respectively.

NOTE 9 – COMMITMENTS - Continued

Root Capital also leases office space under short-term lease agreements in Kenya, Mexico, Costa Rica, and Haiti. ACCDER rents office space in Peru under a three-year operating lease agreement expiring in 2018.

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

2015	\$	570,883
2016		640,227
2017		625,452
2018		538,031
2019		525,513
2020 and thereafter		<u>1,206,993</u>
Total commitments	\$	<u>4,107,099</u>

Occupancy expense for the years ended December 31, 2014 and 2013 (including utilities and maintenance) totaled \$600,018 and \$743,175 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 amount equal to the greater of \$15,000 or ten percent of Root Capital's net Finance operating revenues as defined in the agreement. During 2014 and 2013, Root Capital paid EDF \$15,000 each year according to the agreement, which is included in "other direct costs" in the accompanying Statements of Functional Expenses. The agreement expires in 2015.

NOTE 10 - 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, 2014 and 2013, total retirement expense was \$153,968 and \$156,228, respectively, and is included in "salaries and related benefits" in the accompanying Statements of Functional Expenses.

NOTE 11 - 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.

NOTE 11 - FAIR VALUE MEASUREMENT - Continued

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, 2014 and 2013.

- **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.

The table below summarizes, by level within the fair value hierarchy, Root Capital's financial instruments measured at fair value on a recurring basis as of December 31:

2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Mutual Fund	\$ <u>198,006</u>	<u>-</u>	<u>-</u>	\$ <u>\$198,006</u>
2013	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Mutual Fund	\$ <u>\$9,045,149</u>	<u>-</u>	<u>-</u>	\$ <u>\$9,045,149</u>

NOTE 12 - TRANSACTIONS WITH RELATED PARTIES

Root Capital's notes payable balance as of December 31, 2014 includes two notes from related parties totaling \$2,050,000. One note is held by an officer and one note is held by a director. Notes payable balance as of December 31, 2013 included two notes from directors totaling \$2,000,000. The terms of the notes payable to related parties are consistent with terms of notes payable to non-related parties. Accrued interest on notes from related parties was \$20,850 and \$20,111 as of December 31, 2014 and December 31, 2013 respectively.

Root Capital received pledges of philanthropic funding from related parties, specifically certain directors, in the amount of \$1,017,885 and \$2,925,250 in 2014 and 2013 respectively.

NOTE 13 - 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 2013 and 2014 Root Capital entered into deliverable swap and forward agreements ranging from 6 to 18 months in duration to hedge exposures to the British Pound, Euro 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:

Currency	2014	2013
British Pound	\$ -	\$ (14,728)
Euro	1,487,788	(362,906)
Mexican Peso	46,629	-
Total loans receivable	\$ 1,534,417	\$ (377,634)

NOTE 14 - SUBSEQUENT EVENTS

In preparing these combined financial statements, Root Capital has evaluated events and transactions for potential recognition or disclosure through April 30, 2015, the date the financial statements were available to be issued.