

# **TechnoServe, Inc.**

Consolidated Financial Report  
December 31, 2011

## Contents

---

<b>Independent Auditor's Report</b>	1
-------------------------------------	---

---

<b>Financial Statements</b>	
Consolidated Balance Sheet	2
Consolidated Statement Of Activities	3
Consolidated Statement Of Functional Expenses	4
Consolidated Statement Of Cash Flows	5
<b>Notes To Consolidated Financial Statements</b>	6 – 12

---



## Independent Auditor's Report

To the Board of Directors  
TechnoServe, Inc.  
Washington, D.C.

We have audited the accompanying consolidated balance sheet of TechnoServe, Inc. (TechnoServe) as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the TechnoServe's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from TechnoServe's consolidated financial statements as of and for the year ended December 31, 2010 and, in our report dated June 24, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TechnoServe's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TechnoServe as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012, on our consideration of TechnoServe's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McGladrey LLP*

Vienna, Virginia  
May 14, 2012

TechnoServe, Inc.

Consolidated Balance Sheet

December 31, 2011

(With Comparative Totals For 2010)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash And Cash Equivalents		
In United States	\$ 23,787,948	\$ 23,428,992
In assisted countries	8,090,650	3,266,445
<b>Total cash and cash equivalents</b>	<b>31,878,598</b>	<b>26,695,437</b>
Certificates Of Deposit	4,055,985	5,832,371
Grants And Contributions Receivable, net	6,566,510	5,440,964
Other Receivables, net	386,570	912,852
Other Assets	2,045,939	2,024,201
Property And Equipment, net	2,811,008	2,702,878
	<b>\$ 47,744,610</b>	<b>\$ 43,608,703</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,364,443	\$ 2,565,960
Accrued employee benefits	3,242,003	2,993,665
Deferred rent and lease incentives	1,028,348	-
Deferred loan guarantees	3,533,985	2,667,021
Deferred grant revenue and refundable advances	33,227,312	25,459,761
	<b>42,396,091</b>	<b>33,686,407</b>
Commitments And Contingencies (Note 8)		
Net Assets		
Unrestricted	3,054,966	4,758,451
Temporarily restricted	2,293,553	5,163,845
	<b>5,348,519</b>	<b>9,922,296</b>
	<b>\$ 47,744,610</b>	<b>\$ 43,608,703</b>

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

**Consolidated Statement Of Activities**  
**Year Ended December 31, 2010**  
**(With Comparative Totals For 2010)**

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Support and Revenue</b>				
Private contributions and grants	\$ 37,247,407	\$ 2,456,372	\$ 39,703,779	\$ 42,880,380
Government grants	16,088,132	-	16,088,132	9,200,533
Contributed services	3,311,790	-	3,311,790	3,681,440
Other gain	375,136	-	375,136	220,804
Satisfaction of program restrictions	5,326,664	(5,326,664)	-	-
<b>Total support and revenue</b>	<b>62,349,129</b>	<b>(2,870,292)</b>	<b>59,478,837</b>	55,983,157
<b>Expenses</b>				
Program Services	54,100,119	-	54,100,119	48,950,679
Supporting Services				
Management and general	8,491,103	-	8,491,103	7,781,340
Fundraising	1,555,214	-	1,555,214	1,584,086
<b>Total expenses</b>	<b>64,146,436</b>	<b>-</b>	<b>64,146,436</b>	58,316,105
<b>Change in net assets before translation adjustment</b>	<b>(1,797,307)</b>	<b>(2,870,292)</b>	<b>(4,667,599)</b>	(2,332,948)
Currency Translation Adjustment	93,822	-	93,822	(525,088)
<b>Change in net assets</b>	<b>(1,703,485)</b>	<b>(2,870,292)</b>	<b>(4,573,777)</b>	(2,858,036)
<b>Net Assets</b>				
Beginning	4,758,451	5,163,845	9,922,296	12,780,332
Ending	<b>\$ 3,054,966</b>	<b>\$ 2,293,553</b>	<b>\$ 5,348,519</b>	<b>\$ 9,922,296</b>

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

**Consolidated Statement Of Functional Expenses**  
**Year Ended December 31, 2011**  
**(With Comparative Totals For 2010)**

	2011				2010
	Program Services	Management And General	Fundraising	Total	Total
Salaries, wages, and employee benefits	\$ 23,898,137	\$ 4,785,249	\$ 490,199	\$ 29,173,585	\$ 25,771,404
Office operations	3,428,098	1,313,653	44,506	4,786,257	4,253,762
International travel	2,064,434	319,665	8,638	2,392,737	2,836,667
In-country travel	3,435,993	204,924	29,569	3,670,486	5,489,570
Equipment purchases	703,728	198,869	2,340	904,937	1,313,576
Outside services	7,649,973	1,156,439	929,387	9,735,799	8,560,555
Depreciation	1,388,192	-	-	1,388,192	1,207,142
Vehicle operations	4,043,968	2,438	25	4,046,431	2,112,220
Donated services	3,311,790	-	-	3,311,790	3,681,440
Operational activities support	1,625,453	509,866	50,550	2,185,869	1,295,827
Pass-through awards	2,550,353	-	-	2,550,353	1,793,942
<b>Total expenses</b>	<b>\$ 54,100,119</b>	<b>\$ 8,491,103</b>	<b>\$ 1,555,214</b>	<b>\$ 64,146,436</b>	<b>\$ 58,316,105</b>

See Notes To Consolidated Financial Statements.

**TechnoServe, Inc.**

**Consolidated Statement Of Cash Flows**  
**Year Ended December 31, 2011**  
**(With Comparative Totals For 2010)**

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Change in net assets before translation adjustment	\$ (4,667,599)	\$ (2,332,948)
Currency translation adjustment	93,822	(525,088)
	<b>(4,573,777)</b>	<b>(2,858,036)</b>
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Deferred rent and lease incentives	258,288	-
Depreciation	1,388,192	1,207,142
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	(1,125,546)	935,080
Other receivables	526,282	190,074
Other assets	(21,738)	(574,208)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,201,517)	760,952
Accrued employee benefits	248,338	119,521
Deferred loan guarantees	866,964	2,667,021
Deferred grant revenue and refundable advances	7,767,551	(2,783,041)
<b>Net cash provided by (used in) operating activities</b>	<b>4,133,037</b>	<b>(335,495)</b>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(726,262)	(1,478,076)
Proceeds from maturity of certificates of deposit	1,776,386	5,230,572
<b>Net cash provided by investing activities</b>	<b>1,050,124</b>	<b>3,752,496</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,183,161</b>	<b>3,417,001</b>
<b>Cash And Cash Equivalents:</b>		
Beginning	26,695,437	23,278,436
Ending	<b>\$ 31,878,598</b>	<b>\$ 26,695,437</b>
<b>Supplemental Disclosure Of Cash Flow Information</b>		
Leasehold improvements funded by landlord	\$ 770,060	\$ -

See Notes To Consolidated Financial Statements.

## TechnoServe, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: TechnoServe, Inc. (TechnoServe) is a tax-exempt 501(c)(3), non-profit organization established in 1968. Its mission is to help entrepreneurial men and women in poor rural areas of the developing world to build profitable businesses that create income, opportunity and economic growth for their families, their communities and their countries. TechnoServe accomplishes this by providing management, technical assistance and training to businesses and institutions primarily related to the agricultural sector. TechnoServe's operations are conducted primarily in Africa and Latin America with the support of U.S. offices located in Norwalk, Connecticut and Washington, D.C.

On July 27, 1999, TechnoServe registered the Community Enterprise Development and Investment (CEDI) Trust as a locally registered trust in Ghana. The trust is a separate legally registered entity under the Trustee Incorporated Act of 1962 with the Ministry of Lands and Forestry in Ghana. The mission and goals of the trust mirror the commitment of TechnoServe's goal of creating economic growth for entrepreneurial men and women in poor rural areas of the developing world.

A summary of TechnoServe's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The consolidated financial statements of TechnoServe, Inc. include the accounts of four legal entities: (1) TechnoServe, Inc., (2) the CEDI Trust, incorporated as a separate legally registered entity in the Republic of Ghana, (3) TechnoNicaragua, a local entity registered in Nicaragua and (4) Mapato Agro Company Limited, another local legal entity registered in Tanzania. All inter-entity transactions have been eliminated in consolidation.

Basis of presentation: TechnoServe reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. TechnoServe did not have any permanently restricted net assets at December 31, 2011.

Cash and cash equivalents: TechnoServe considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. TechnoServe maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. TechnoServe has not experienced any losses in such accounts.

Accounts receivable: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. No interest is charged on past due receivables. There was no allowance at December 31, 2011.

Property and equipment: Property and equipment have a useful life of more than one year and an acquisition cost of \$5,000 or more. Acquisitions under \$5,000 are expensed in the current year of operations. Property and equipment is carried at historical cost and are depreciated on the straight-line basis over their estimated useful lives. The useful lives are as follow:

Vehicles	3 years
Leasehold improvements	Lesser of 10 years or the life of the lease
Computer equipment	3 years – 5 years
Other equipment	7 years – 10 years
Software	3 years

## TechnoServe, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Property and equipment acquired with U.S. federal funds are subject to rules governing disposition of such assets by the respective governmental agency.

Deferred lease and lease incentives: The value of the rent abatement, tenant improvement allowance, as well as rent increases in future years, received under the lease agreement for office space for TechnoServe's Washington, D.C. office, is being allocated on a straight-line basis over the term of the lease as a reduction in rent expense in each period.

Deferred loan guarantees: TechnoServe has several grants under which the donors have provided funds to serve as loan guarantees for small business to be able to secure loans. In accordance with the grant guidelines, TechnoServe has entered into risk sharing agreements with certain financial institutions whereby TechnoServe is liable to these financial institutions for any defaulted loans under the terms of the risk sharing agreements. The maximum liability of TechnoServe is limited to the amount of donors funds provided, less any loan defaults, which totaled \$3,533,985 at December 31, 2011. The full amount of this liability has been recognized in the consolidated balance sheet as any unused portion of the funds reverts back to the donor at the end of the grant period.

Deferred grant revenue and refundable advances: TechnoServe receives awards from federal agencies for various purposes. Awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved award. TechnoServe defers award revenue received under approved awards to the extent they exceed expenses incurred for the purposes specified under the award restrictions. Proceeds from the monetization of commodities are also reported as refundable advances.

Unrestricted net assets: Unrestricted net assets represent unrestricted resources available to support TechnoServe's operations and temporarily restricted resources that become available for use by TechnoServe in accordance with the intentions of the donors.

Temporarily restricted net assets: Temporarily restricted net assets represent contributions that are limited in use in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of TechnoServe according to the terms of the contribution.

Support and revenue recognition: All contributions, including unconditional promises to give, are reported as unrestricted revenue when received in the absence of a donor's explicit stipulation or circumstances surrounding the receipt of the contribution that make clear the donor's restrictions on use. Donor-restricted contributions are reported as temporarily restricted revenues, which increase temporarily restricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Grants, cooperative agreements and contracts are deemed to be exchange transactions and, accordingly, are recorded as unrestricted revenue. Grants, cooperative agreements and contracts receivable are amounts due from funding organizations for reimbursable expenses incurred. Deferred grant revenue and refundable advances represent cash advances received that are to be used for the implementation of the specific agreement's objectives. Grants or cooperative agreements that provide for reimbursement to TechnoServe of specified program, project, and supporting services expenditures are recognized as unrestricted support as the reimbursable expenditures are incurred.

Grant solicitation and fund-raising costs: Grant solicitation costs consist of the costs of raising country-specific or project-specific grants from private donors or public sources such as governmental agencies. Fund-raising costs consist of expenses incurred in raising unrestricted contributions from private sources.

## TechnoServe, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Contributed services and in-kind contributions: TechnoServe receives contributed services in support of its programs. Certain contributed services meet the criteria for recognition under generally accepted accounting principles and are reflected in the consolidated statements of activities as contributions and program expenses. Others contributed services and any in-kind contributions have not been recorded due to immateriality.

Concentration of risk: Support and revenue from the Gates Foundation, USAID, and USDA represented approximately 27 percent, 12 percent and 10 percent, respectively, of total support and revenue for the year ended December 31, 2011. Additionally, as of December 31, 2011, approximately 12 percent of TechnoServe's cash and cash equivalents are denominated in foreign currency amounts and subject to currency fluctuations. In addition, approximately 29 percent of the certificates of deposit held at December 31, 2011, are with financial institutions in foreign countries and are not covered by any type of insurance program in event of any of those financial institutions becoming illiquid.

Foreign currency translation: Assets and liabilities of TechnoServe's foreign operations are translated into U.S. dollars at the applicable exchange rates at year-end. Related revenues and expenses are translated at the prevailing monthly average rate. Gains and losses resulting from foreign currency transactions are included in expenses. For the year ended December 31, 2011, TechnoServe had a gain of \$93,822 from foreign currency translation adjustments which is included in other losses on the consolidated statement of activities.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes: TechnoServe is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, TechnoServe has been determined by the Internal Revenue Service not to be a private foundation. Income, which is not related to its exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes. TechnoServe had no unrelated business income for the year ended December 31, 2011.

Management has evaluated TechnoServe's tax positions and has concluded that TechnoServe has taken no uncertain tax positions that require disclosure. TechnoServe files tax returns in the U.S. federal and Washington, D.C. jurisdictions. Generally, TechnoServe is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2008.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TechnoServe's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2010, consolidated financial statements have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets.

## TechnoServe, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Subsequent events: TechnoServe evaluated subsequent events through May 14, 2012, which is the date the consolidated financial statements were available to be issued.

#### Note 2. Property And Equipment

At December 31, 2011, property and equipment consists of the following:

---

Vehicles in program countries	\$ 6,231,974
Leasehold improvements	804,705
Interest in leased building	556,339
Furniture and equipment	449,129
Software	343,080
	<hr/>
	8,385,227
Less accumulated depreciation	(5,574,219)
	<hr/>
	\$ 2,811,008

---

Depreciation expense was \$1,388,192 for the year ended December 31, 2011.

#### Note 3. Grants And Contributions Receivable

As of December 31, 2011, grants and contributions receivable consists of the following:

---

Program specific	\$ 5,877,022
Other grant and contribution receivables	689,488
	<hr/>
	\$ 6,566,510

---

As of December 31, 2011, all grants and contributions receivable are expected to be collected within one year.

#### Note 4. Deferred Grant Revenue And Refundable Advances

Deferred grant revenue and refundable advances consist of the following at December 31, 2011:

---

Gates Foundation agreements	\$ 10,128,328
USDA monetization proceeds	8,315,601
USAID agreements	1,385,786
Other restricted agreements	13,397,597
	<hr/>
	\$ 33,227,312

---

## TechnoServe, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 5. 401(k) Pension And Tax Sheltered Annuity Plans

U.S. employees and U.S. citizens and other expatriates living abroad may participate in the 401(k) pension plan. TechnoServe contributes to the plan an amount equal to 9 percent of each participant's base compensation up to \$220,000. Vesting occurs at a rate of 100 percent after three years of service.

A host country national plan is available to all other TechnoServe employees living abroad who are not covered by the 401(k) plan. Employees are eligible upon completing six months of service. Both employee and employer contributions are dictated by local country policies.

TechnoServe's contributions to the plans totaled \$1,741,309 for the year ended December 31, 2011, and those amounts are included in salaries, wages and employee benefits in the accompanying consolidated statement of functional expenses.

#### Note 6. Operating Lease Commitments

TechnoServe leases office space and equipment under operating leases in Norwalk, Connecticut, Washington, D.C. and in several foreign countries. TechnoServe's headquarters lease in Washington, D.C. was entered into in August 2010 and commenced January 1, 2011.

Under the lease agreement for the office space for the Washington, D.C. location, TechnoServe's monthly lease payments escalate annually, with a full abatement of rent through February 2011, and partial rent abatements from March to October 2011. TechnoServe also received the benefit of a tenant improvement allowance of \$770,060. The tenant improvement allowance is being amortized on a straight-line basis over the life of the lease. A deferred rent and lease incentive liability is recorded on the balance sheet in relation to the escalating lease payments, the rent abatements, and tenant improvement allowance.

Scheduled minimum future lease payments under noncancelable operating leases as of December 31, 2011, are as follows:

Years Ending December 31,	
2012	\$ 1,359,249
2013	953,383
2014	842,377
2015	743,832
2016	697,630
2017 - 2021	3,108,259
	<u>\$ 7,704,730</u>

Rent expense was \$1,790,686 for the year ended December 31, 2011.

**TechnoServe, Inc.****Notes To Consolidated Financial Statements****Note 7. Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of contributions for the following purposes at December 31, 2011:

	Balance December 31, 2010	Restricted Contributions	Released	Balance December 31, 2011
South Africa	\$ 1,979,564	\$ 791,536	\$ 1,467,479	\$ 1,303,621
Colombia	1,158	200,000	3,273	197,885
Nicaragua	27,945	526,852	372,625	182,172
El Salvador	5,238	127,481	7,072	125,647
Kenya	103,828	166,423	152,898	117,353
Tanzania	670,042	15,802	608,942	76,902
Uganda	319,512	-	248,446	71,066
Swaziland	111,275	-	58,450	52,825
Peru	227,091	-	185,762	41,329
Ghana	192,028	479,827	638,808	33,047
Mozambique	91,254	36,413	98,143	29,524
Home Office	1,287,565	43,766	1,303,924	27,407
Haiti	4,591	25,220	16,695	13,116
Guatemala	22,441	23,231	35,672	10,000
Peru/Chile	8,027	-	2,188	5,839
Honduras	19,000	16,901	30,121	5,780
Zambia	-	2,558	2,538	20
India	93,286	362	93,628	20
	<u>\$ 5,163,845</u>	<u>\$ 2,456,372</u>	<u>\$ 5,326,664</u>	<u>\$ 2,293,553</u>

**Note 8. Conditional Contributions**

As of December 31, 2011, TechnoServe has conditional contribution receivables of \$44,082,862 still outstanding which have not been recognized in the accompanying consolidated financial statements. Such contributions are payable over a four-year period conditional upon the successful management of TechnoServe based on a number of milestones and the future discretion of the donor.

**TechnoServe, Inc.**

**Notes To Consolidated Financial Statements**

---

**Note 9. Commitments And Contingencies**

TechnoServe participates in a number of federally assisted grant programs which are subject to financial and compliance audits by USAID and USDA or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

On December 19, 2005, TechnoServe was named the replacement beneficiary of an endowment fund held by the United States Agency for International Development and the Government of Swaziland. As the beneficiary of the endowment fund, TechnoServe will provide support to develop the small and medium business sector in Swaziland. The term of the endowment that originally was for 6 years, was extended to December 2012. The estimated value of the endowment to support the Swaziland enterprise development activity is \$751,006 at December 31, 2011. The endowment is revocable and TechnoServe is required to submit an annual work plan that must be accepted before each year's obligation of funding of endowment principal and interest can be approved. USAID is free to remove TechnoServe as beneficiary of the endowment fund at their discretion. Accordingly, this transaction is counted for as an exchange transaction and the endowment fund is not reflected in the assets or net assets of TechnoServe's consolidated balance sheet.