

# **TechnoServe, Inc.**

Consolidated Financial Report  
December 31, 2012

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## **Independent Auditor's Report**

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of TechnoServe, Inc. (TechnoServe) which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. 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 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 entity'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 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TechnoServe as of December 31, 2012, and the change in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited TechnoServe's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of TechnoServe's internal control over financial reporting and on our tests 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TechnoServe's internal control over financial reporting and compliance.



Vienna, Virginia  
May 30, 2013

**TechnoServe, Inc.**

**Consolidated Balance Sheet**

**December 31, 2012**

**(With Comparative Totals For 2011)**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash And Cash Equivalents		
In United States	\$ 28,236,468	\$ 23,787,948
In assisted countries	10,057,818	8,090,650
<b>Total cash and cash equivalents</b>	<b>38,294,286</b>	<b>31,878,598</b>
Certificates Of Deposit	6,629,258	4,055,985
Grants And Contributions Receivable, net	7,640,200	6,566,510
Other Receivables, net	763,880	386,570
Other Assets	1,838,227	2,045,939
Property And Equipment, net	2,090,292	2,811,008
	<b>\$ 57,256,143</b>	<b>\$ 47,744,610</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,639,829	\$ 1,364,443
Accrued employee benefits	3,742,625	3,242,003
Deferred rent and lease incentives	994,066	1,028,348
Deferred loan guarantees	3,499,239	3,533,985
Deferred grant revenue and refundable advances	42,628,851	33,227,312
	<b>53,504,610</b>	<b>42,396,091</b>
Commitments And Contingencies (Note 9)		
Net Assets		
Unrestricted	1,976,471	3,054,966
Temporarily restricted	1,775,062	2,293,553
	<b>3,751,533</b>	<b>5,348,519</b>
	<b>\$ 57,256,143</b>	<b>\$ 47,744,610</b>

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

**Consolidated Statement Of Activities**  
**Year Ended December 31, 2012**  
**(With Comparative Totals For 2011)**

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and Revenue</b>				
Private contributions and grants	\$ 44,973,970	\$ 1,668,880	\$ 46,642,850	\$ 39,703,779
Government grants	21,995,453	-	21,995,453	16,088,132
Contributed services	5,268,220	-	5,268,220	3,311,790
Other gain	457,612	-	457,612	375,136
Satisfaction of program restrictions	2,187,371	(2,187,371)	-	-
<b>Total support and revenue</b>	<b>74,882,626</b>	<b>(518,491)</b>	<b>74,364,135</b>	<b>59,478,837</b>
<b>Expenses</b>				
Program services	65,329,427	-	65,329,427	54,100,119
Supporting services:				
Management and general	8,937,688	-	8,937,688	8,491,103
Fundraising	1,576,844	-	1,576,844	1,555,214
<b>Total expenses</b>	<b>75,843,959</b>	<b>-</b>	<b>75,843,959</b>	<b>64,146,436</b>
<b>Change in net assets before translation adjustment</b>	<b>(961,333)</b>	<b>(518,491)</b>	<b>(1,479,824)</b>	<b>(4,667,599)</b>
Currency Translation Adjustment	(117,162)	-	(117,162)	93,822
<b>Change in net assets</b>	<b>(1,078,495)</b>	<b>(518,491)</b>	<b>(1,596,986)</b>	<b>(4,573,777)</b>
<b>Net Assets</b>				
Beginning	3,054,966	2,293,553	5,348,519	9,922,296
Ending	\$ 1,976,471	\$ 1,775,062	\$ 3,751,533	\$ 5,348,519

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

**Consolidated Statement Of Functional Expenses**  
**Year Ended December 31, 2012**  
**(With Comparative Totals For 2011)**

	2012			Total	2011 Total
	Program Services	Supporting Services Management And General	Fundraising		
Salaries, wages, and employee benefits	\$ 28,082,869	\$ 5,663,534	\$ 407,615	\$ 34,154,018	\$ 29,173,585
Outside services	11,132,339	943,914	1,041,630	13,117,883	9,735,799
Donated services	5,255,834	-	-	5,255,834	3,311,790
Office operations	3,417,226	1,195,060	27,522	4,639,808	4,786,257
Operational activities support	3,823,281	407,828	45,011	4,276,120	2,185,869
In-country travel	3,890,933	206,710	29,273	4,126,916	3,670,486
Pass-through awards	2,858,924	-	-	2,858,924	2,550,353
Vehicle operations	2,837,946	8,236	698	2,846,880	4,046,431
International travel	2,151,328	291,833	25,095	2,468,256	2,392,737
Equipment purchases	833,467	218,936	-	1,052,403	904,937
Depreciation	1,045,280	1,637	-	1,046,917	1,388,192
<b>Total expenses</b>	<b>\$ 65,329,427</b>	<b>\$ 8,937,688</b>	<b>\$ 1,576,844</b>	<b>\$ 75,843,959</b>	<b>\$ 64,146,436</b>

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

**Consolidated Statement Of Cash Flows**  
**Year Ended December 31, 2012**  
**(With Comparative Totals For 2011)**

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Change in net assets before translation adjustment	\$ (1,479,824)	\$ (4,667,599)
Currency translation adjustment	(117,162)	93,822
Change in net assets	<u>(1,596,986)</u>	<u>(4,573,777)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Deferred rent and lease incentives	(34,282)	258,288
Depreciation	1,046,917	1,388,192
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	(1,073,690)	(1,125,546)
Other receivables	(377,310)	526,282
Other assets	207,712	(21,738)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,275,386	(1,201,517)
Accrued employee benefits	500,622	248,338
Deferred loan guarantees	(34,746)	866,964
Deferred grant revenue and refundable advances	9,401,539	7,767,551
<b>Net cash provided by operating activities</b>	<u><b>9,315,162</b></u>	<u><b>4,133,037</b></u>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(326,201)	(726,262)
Proceeds from maturity of certificates of deposit	751,613	1,776,386
Purchases of certificates of deposit	(3,324,886)	-
<b>Net cash (used in) provided by investing activities</b>	<u><b>(2,899,474)</b></u>	<u><b>1,050,124</b></u>
<b>Net increase in cash and cash equivalents</b>	<b>6,415,688</b>	<b>5,183,161</b>
<b>Cash And Cash Equivalents</b>		
Beginning	<u><b>31,878,598</b></u>	<u>26,695,437</u>
Ending	<u><b>\$ 38,294,286</b></u>	<u>\$ 31,878,598</u>
<b>Supplemental Disclosure Of Cash Flow Information</b>		
Leasehold improvements funded by landlord	<u><b>\$ -</b></u>	<u><b>\$ 770,060</b></u>

See Notes To Consolidated Financial Statements.



**TechnoServe, Inc.**

**Notes To Consolidated Financial Statements**

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**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 for TechnoServe headquarters and all TechnoServe field offices. 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, 2012.

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, 2012.

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**

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

Property and equipment (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 \$3,499,239 at December 31, 2012. 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**

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**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 statement of activities as contributions and program expenses.

Concentration of risk: Support and revenue from the Gates Foundation, USAID, and USDA represented approximately 23%, 14% and 15%, respectively, of total support and revenue for the year ended December 31, 2012. Additionally, as of December 31, 2012, approximately 17% of TechnoServe's cash and cash equivalents and certificates of deposit are denominated in foreign currency amounts and subject to currency fluctuations.

Foreign currency translation: The functional currency of TNS is the U.S. Dollar. The financial statements and transactions of TNS's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated into U.S. Dollars at the balance sheet date at the exchange rate in effect at year-end.

Foreign currency transactions: Monthly expenses that are incurred by field offices in foreign countries are translated into U.S. Dollars at the rate of exchange in effect during the month of the transaction. Gains and losses from foreign currency transactions are included in change in net assets.

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, 2012.

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 2009.

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 consolidated 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 consolidated financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent events: TechnoServe evaluated subsequent events through May 30, 2013, which is the date the consolidated financial statements were available to be issued.

**TechnoServe, Inc.**

**Notes To Consolidated Financial Statements**

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**Note 2. Property And Equipment**

At December 31, 2012, property and equipment consists of the following:

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Vehicles in program countries	\$ 6,678,024
Leasehold improvements	804,705
Interest in leased building	556,339
Furniture and equipment	519,558
Software	343,080
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	8,901,706
Less accumulated depreciation	(6,811,414)
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	\$ 2,090,292

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Depreciation expense was \$1,046,917 for the year ended December 31, 2012.

**Note 3. Grants And Contributions Receivable**

As of December 31, 2012, grants and contributions receivable consists of the following:

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Program specific	\$ 6,855,015
Other grant and contribution receivables	785,185
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	\$ 7,640,200

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As of December 31, 2012, 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, 2012:

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Other restricted agreements	\$ 18,827,788
USDA monetization proceeds	11,773,779
Gates Foundation agreements	11,171,828
USAID agreements	855,456
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	\$ 42,628,851

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**TechnoServe, Inc.**

**Notes To Consolidated Financial Statements**

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**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 up to 9% of each participant's base compensation up to \$220,000. Vesting occurs at a rate of 100% 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 \$2,052,345 for the year ended December 31, 2012, 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. TechnoServe also received the benefit of a tenant improvement allowance of \$777,060. 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, 2012, are as follows:

Years Ending December 31,	
2013	\$ 1,534,661
2014	897,810
2015	785,368
2016	716,583
2017	703,404
2018 – 2021	2,405,437
	<u>\$ 7,043,263</u>

Rent expense was \$1,927,414 for the year ended December 31, 2012.

**TechnoServe, Inc.**

**Notes To Consolidated Financial Statements**

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**Note 7. Temporarily Restricted Net Assets**

During the year ended December 31, 2012, TechnoServe received \$1,688,880 of temporarily restricted contributions. TechnoServe incurred expenses on temporarily restricted contributions of \$2,187,371. At December 31, 2012, TechnoServe had a temporarily restricted net asset balance of \$1,775,062. Temporarily restricted net assets consist of contributions restricted due to purpose.

**Note 8. Commitments And Contingencies**

U.S. Federal Grants:

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.

Litigation:

TechnoServe is involved in various claims and legal actions arising in the ordinary course of business. Based upon information currently available, management believes the ultimate disposition of these matters will not have a material adverse effect on its financial position, changes in net assets or cash flows.

**Note 9. Committed Future Revenues**

As of December 31, 2012, TechnoServe has contribution receivables of \$78,924,986 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.