

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2013

Contents

Independent Auditor's Report	1-2
<hr/>	
Financial Statements	
Consolidated Balance Sheet	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-12



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, 2013, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TechnoServe as of December 31, 2013, and the changes 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 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, 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 June 24, 2014, 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.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

McLean, Virginia
June 24, 2014

TechnoServe, Inc.

Consolidated Balance Sheet
December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Assets		
Cash and Cash Equivalents		
In United States	\$ 22,315,520	\$ 28,236,468
In assisted countries	9,128,962	10,057,818
Total cash and cash equivalents	31,444,482	38,294,286
Certificates of Deposit	15,075,395	6,629,258
Grants and Contributions Receivable, net	7,645,438	7,640,200
Other Receivables, net	1,175,435	763,880
Other Assets	1,633,771	1,838,227
Property and Equipment, net	2,283,979	2,090,292
	\$ 59,258,500	\$ 57,256,143
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,636,265	\$ 2,639,829
Accrued employee benefits	3,106,784	3,742,625
Deferred rent and lease incentives	945,846	994,066
Deferred loan guarantees	4,431,866	3,499,239
Deferred grant revenue and refundable advances	38,974,366	42,628,851
	50,095,127	53,504,610
Commitments and Contingencies (Notes 5, 6, 8, and 9)		
Net Assets		
Unrestricted	5,985,461	1,976,471
Temporarily restricted	3,177,912	1,775,062
	9,163,373	3,751,533
	\$ 59,258,500	\$ 57,256,143

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013			2012 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue				
Private contributions and grants	\$ 50,807,754	\$ 4,378,768	\$ 55,186,522	\$ 46,642,850
Government grants	24,728,798	-	24,728,798	21,995,453
Contributed services	2,239,303	-	2,239,303	5,268,220
Other gain	310,612	-	310,612	457,612
Satisfaction of program restrictions	2,975,918	(2,975,918)	-	-
Total support and revenue	81,062,385	1,402,850	82,465,235	74,364,135
Expenses				
Program services	66,831,486	-	66,831,486	65,329,427
Supporting services:				
Management and general	8,708,907	-	8,708,907	8,937,688
Fundraising	1,456,361	-	1,456,361	1,576,844
Total expenses	76,996,754	-	76,996,754	75,843,959
Change in net assets before translation adjustment	4,065,631	1,402,850	5,468,481	(1,479,824)
Currency Translation Adjustment	(56,641)	-	(56,641)	(117,162)
Change in net assets	4,008,990	1,402,850	5,411,840	(1,596,986)
Net Assets				
Beginning	1,976,471	1,775,062	3,751,533	5,348,519
Ending	\$ 5,985,461	\$ 3,177,912	\$ 9,163,373	\$ 3,751,533

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013			2012 Total	
	Program Services	Supporting Services Management and General	Fundraising		Total
Salaries, Wages, and Employee Benefits	\$ 30,233,628	\$ 5,422,265	\$ 502,569	\$ 36,158,462	\$ 34,154,018
Outside Services	11,547,907	1,190,932	739,469	13,478,308	13,117,883
Operational Activities Support	4,328,423	485,804	154,803	4,969,030	4,276,120
Office Operations	3,446,138	1,053,131	27,735	4,527,004	4,639,808
In-Country Travel	4,048,915	138,062	18,885	4,205,862	4,126,916
Pass-Through Awards	4,049,644	-	-	4,049,644	2,858,924
Vehicle Operations	2,820,797	3,880	406	2,825,083	2,846,880
International Travel	2,369,175	215,319	9,281	2,593,775	2,468,256
Donated Services	2,239,303	-	-	2,239,303	5,255,834
Equipment Purchases	1,013,635	176,236	3,213	1,193,084	1,052,403
Depreciation	733,921	23,278	-	757,199	1,046,917
Total expenses	\$ 66,831,486	\$ 8,708,907	\$ 1,456,361	\$ 76,996,754	\$ 75,843,959

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash Flows from Operating Activities		
Change in net assets before translation adjustment	\$ 5,468,481	\$ (1,479,824)
Currency translation adjustment	(56,641)	(117,162)
Change in net assets	<u>5,411,840</u>	<u>(1,596,986)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Deferred rent and lease incentives	(48,220)	(34,282)
Depreciation	757,199	1,046,917
Bad debt expense	428,919	-
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	(434,157)	(1,073,690)
Other receivables	(411,555)	(377,310)
Other assets	204,456	207,712
(Decrease) increase in:		
Accounts payable and accrued expenses	(3,564)	1,275,386
Accrued employee benefits	(635,841)	500,622
Deferred loan guarantees	932,627	(34,746)
Deferred grant revenue and refundable advances	(3,654,485)	9,401,539
Net cash provided by operating activities	<u>2,547,219</u>	<u>9,315,162</u>
Cash Flows from Investing Activities		
Capital expenditures	(950,886)	(326,201)
Proceeds from maturity of certificates of deposit	3,998,405	751,613
Purchases of certificates of deposit	(12,444,542)	(3,324,886)
Net cash used in investing activities	<u>(9,397,023)</u>	<u>(2,899,474)</u>
Net (decrease) increase in cash and cash equivalents	<u>(6,849,804)</u>	<u>6,415,688</u>
Cash and Cash Equivalents		
Beginning	<u>38,294,286</u>	<u>31,878,598</u>
Ending	<u><u>\$ 31,444,482</u></u>	<u><u>\$ 38,294,286</u></u>

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 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, 2013.

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.

Grants and Contribution 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. The allowance for doubtful accounts was \$428,919 at December 31, 2013.

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 are carried at historical cost and are depreciated on the straight-line basis over their estimated useful lives. The estimated useful lives are as follow:

Vehicles	3 years
Leasehold improvements	Lesser of 10 years or the life of the lease
Interest in leased building	50 years
Furniture and equipment	3 years – 10 years
Software	3 years

Notes to Consolidated Financial Statements

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 Rent 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 an adjustment to 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 \$4,431,866 at December 31, 2013. 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 as grant receivables 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.

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 statement of activities as contributions and program expenses.

Concentration of Risk: Support and revenue from USDA, USAID, and the Gates Foundation represented approximately 16%, 14% and 12%, respectively, of total support and revenue for the year ended December 31, 2013. Additionally, as of December 31, 2013, approximately 20% of TechnoServe's cash and cash equivalents and certificates of deposit are denominated in foreign currency amounts and subject to currency fluctuations. In addition, approximately 9% of the certificates of deposit held at December 31, 2013, are with financial institutions in foreign countries and are not covered by any type of insurance program in the event of any of those financial institutions becoming illiquid.

Foreign Currency Translation: The functional currency of TechnoServe is the U.S. Dollar. The financial statements and transactions of TechnoServe'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, 2013.

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 2010.

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, 2012, from which the summarized information was derived.

Subsequent Events: TechnoServe evaluated subsequent events through June 24, 2014, which is the date the consolidated financial statements were available to be issued.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 2. Property and Equipment

At December 31, 2013, property and equipment consists of the following:

Vehicles in program countries	\$ 7,346,331
Leasehold improvements	804,705
Interest in leased building	556,339
Furniture and equipment	531,991
Software	479,082
	<hr/>
	9,718,448
Less accumulated depreciation	(7,434,469)
	<hr/>
	\$ 2,283,979
	<hr/>

Depreciation expense was \$757,199 for the year ended December 31, 2013.

Note 3. Grants and Contributions Receivable

As of December 31, 2013, grants and contributions receivable consist of the following:

Program specific, net of allowance	\$ 7,026,602
Other grant and contribution receivables	618,836
	<hr/>
	\$ 7,645,438
	<hr/>

As of December 31, 2013, 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, 2013:

Other restricted agreements	\$ 17,896,257
USDA monetization proceeds	17,126,959
Gates Foundation agreements	3,750,849
USAID agreements	200,301
	<hr/>
	\$ 38,974,366
	<hr/>

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 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 \$1,970,438 for the year ended December 31, 2013, 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, 2013, are as follows:

Years Ending December 31,	
2014	\$ 1,614,710
2015	1,014,904
2016	835,937
2017	766,045
2018	664,823
2019 – 2021	1,737,893
	<u>\$ 6,634,312</u>

Rent expense was \$1,871,582 for the year ended December 31, 2013.

Note 7. Temporarily Restricted Net Assets

During the year ended December 31, 2013, TechnoServe received \$4,378,768 of temporarily restricted contributions. TechnoServe incurred expenses on temporarily restricted contributions of \$2,975,918. At December 31, 2013, TechnoServe had a temporarily restricted net asset balance of \$3,177,912. Temporarily restricted net assets consist of contributions restricted due to time and purpose.

Notes to Consolidated Financial Statements

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. Conditional Future Revenues

As of December 31, 2013, TechnoServe has \$86,437,016 of cash to be collected on conditional pledges. This amount is not recognized in the accompanying consolidated financial statements as 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.