

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TechnoServe, Inc. (TechnoServe) which comprise the consolidated balance sheet as of December 31, 2014, 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 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, 2014, 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 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 24, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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 10, 2015, 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.

McGladrey LLP

McLean, Virginia
June 10, 2015

TechnoServe, Inc.

Consolidated Balance Sheet
December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Assets		
Cash and Cash Equivalents		
In United States	\$ 38,246,334	\$ 33,810,560
In assisted countries	12,234,596	10,413,087
Total cash and cash equivalents	50,480,930	44,223,647
Certificates of Deposit	1,000,000	2,296,230
Grants and Contributions Receivable, Net	11,072,314	7,645,438
Other Receivables	1,978,840	1,175,435
Other Assets	2,209,215	1,633,771
Property and Equipment, Net	2,061,137	2,283,979
	\$ 68,802,436	\$ 59,258,500
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,531,731	\$ 2,636,265
Accrued employee benefits	3,042,745	3,106,784
Deferred rent and lease incentives	883,338	945,846
Deferred loan guarantees	2,553,682	4,431,866
Deferred grant revenue and refundable advances	49,385,075	38,974,366
	59,396,571	50,095,127
Commitments and Contingencies (Notes 5, 6, 8, and 9)		
Net Assets		
Unrestricted	7,533,722	5,985,461
Temporarily restricted	1,872,143	3,177,912
	9,405,865	9,163,373
	\$ 68,802,436	\$ 59,258,500

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue				
Private contributions and grants	\$ 53,078,480	\$ 1,458,084	\$ 54,536,564	\$ 55,186,522
Government grants	21,711,994	-	21,711,994	24,728,798
Contributed services and in-kind	2,796,570	-	2,796,570	2,239,303
Other gain	544,854	-	544,854	310,612
Satisfaction of program restrictions	2,763,853	(2,763,853)	-	-
Total support and revenue	80,895,751	(1,305,769)	79,589,982	82,465,235
Expenses				
Program services	68,576,719	-	68,576,719	66,831,486
Supporting services:				
Management and general	9,073,578	-	9,073,578	8,708,907
Fundraising	1,596,278	-	1,596,278	1,456,361
Total expenses	79,246,575	-	79,246,575	76,996,754
Change in net assets before translation adjustment	1,649,176	(1,305,769)	343,407	5,468,481
Currency Translation Adjustment	(100,915)	-	(100,915)	(56,641)
Change in net assets	1,548,261	(1,305,769)	242,492	5,411,840
Net Assets				
Beginning	5,985,461	3,177,912	9,163,373	3,751,533
Ending	\$ 7,533,722	\$ 1,872,143	\$ 9,405,865	\$ 9,163,373

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014				2013 Total
	Program Services	Supporting Services			
		Management and General	Fundraising	Total	
Salaries, Wages, and					
Employee Benefits	\$ 30,790,606	\$ 5,319,985	\$ 784,705	\$ 36,895,296	\$ 36,158,462
Outside Services	11,731,109	1,271,953	675,682	13,678,744	13,478,308
Operational Activities Support	4,545,805	618,170	60,977	5,224,952	4,969,030
Office Operations	3,597,217	1,165,259	22,968	4,785,444	4,527,004
In-Country Travel	3,744,262	163,793	17,990	3,926,045	4,205,862
Pass-Through Awards	4,190,302	-	-	4,190,302	4,049,644
Vehicle Operations	3,018,821	4,152	604	3,023,577	2,825,083
International Travel	2,269,019	250,922	25,930	2,545,871	2,593,775
Contributed Services and In-Kind	2,796,570	-	-	2,796,570	2,239,303
Equipment Purchases	1,236,228	222,475	7,422	1,466,125	1,193,084
Depreciation	656,780	56,869	-	713,649	757,199
Total expenses	\$ 68,576,719	\$ 9,073,578	\$ 1,596,278	\$ 79,246,575	\$ 76,996,754

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets before translation adjustment	\$ 343,407	\$ 5,468,481
Currency translation adjustment	(100,915)	(56,641)
Change in net assets	<u>242,492</u>	5,411,840
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Deferred rent and lease incentives	(62,508)	(48,220)
Depreciation	713,649	757,199
Bad debt expense	403,298	428,919
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	(3,830,174)	(434,157)
Other receivables	(803,405)	(411,555)
Other assets	(575,444)	204,456
Increase (decrease) in:		
Accounts payable and accrued expenses	895,466	(3,564)
Accrued employee benefits	(64,039)	(635,841)
Deferred loan guarantees	(1,878,184)	932,627
Deferred grant revenue and refundable advances	10,410,709	(3,654,485)
Net cash provided by operating activities	<u>5,451,860</u>	<u>2,547,219</u>
Cash Flows From Investing Activities		
Capital expenditures	(506,363)	(950,886)
Proceeds from disposal of equipment	15,556	-
Proceeds from maturity of certificates of deposit	2,296,230	69,852
Purchases of certificates of deposit	(1,000,000)	-
Net cash provided by (used in) investing activities	<u>805,423</u>	<u>(881,034)</u>
Net increase in cash and cash equivalents	6,257,283	1,666,185
Cash and Cash Equivalents		
Beginning	<u>44,223,647</u>	<u>42,557,462</u>
Ending	<u><u>\$ 50,480,930</u></u>	<u><u>\$ 44,223,647</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 support is recognized when received, 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, all TechnoServe field offices and CEDI. 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, 2014.

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 or promise to give 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 \$832,217 at December 31, 2014.

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.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The estimated useful lives are as follows:

Vehicles	3 years
Leasehold improvements	Lesser of 10 years or the life of the lease
Building in Ghana	50 years
Furniture and equipment	3 years – 10 years
Software	3 years

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

TechnoServe also uses equipment and vehicles in their operations that belong to various donors and thus are not recorded on the balance sheet as assets and liabilities.

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 grantors have provided funds to serve as loan guarantees for small businesses 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 grantor funds provided, less any loan defaults, which totaled \$2,553,682 at December 31, 2014. The full amount of this liability has been recognized on the consolidated balance sheet as any unused portion of the funds reverts back to the grantors at the end of the grant period.

Deferred grant revenue and refundable advances: TechnoServe receives awards from federal agencies for various purposes. Awards expended not yet reimbursed are accrued as grant receivables to the extent unreimbursed expenses have been incurred for the purposes specified by an approved award. TechnoServe defers award proceeds received under approved awards to the extent they exceed expenditures 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.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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.

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. In-kind contributions received are valued and recorded as revenue at their fair value at the time the contribution is received. Contributed services and in-kind contributions are reflected on the consolidated statement of activities as contributions and program expenses.

Concentration of risk: Support and revenue from USDA and USAID represented approximately 15% and 11%, respectively, of total support and revenue for the year ended December 31, 2014. Additionally, as of December 31, 2014, approximately 24% 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 TechnoServe is the U.S. dollar. The financial statements and transactions of TechnoServe's foreign operations are generally maintained in the relevant local currency. 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 change in net assets. For the year ended December 31, 2014, TechnoServe had a loss of \$100,915 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 on 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, 2014.

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 2011.

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.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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, 2013, from which the summarized information was derived.

Reclassification: Certain items in the December 31, 2013, summarized comparative information have been reclassified to comply with current year presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

Subsequent events: TechnoServe evaluated subsequent events through June 10, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2. Property and Equipment

At December 31, 2014, property and equipment consist of the following:

Vehicles in program countries	\$ 7,337,010
Leasehold improvements	816,421
Building in Ghana	556,339
Furniture and equipment	542,671
Software	496,954
	<u>9,749,395</u>
Less accumulated depreciation	<u>(7,688,258)</u>
	<u>\$ 2,061,137</u>

Depreciation expense was \$713,649 for the year ended December 31, 2014.

Note 3. Grants and Contributions Receivable

As of December 31, 2014, grants and contributions receivable consist of the following:

Program specific, net of allowance	\$ 10,693,603
Other grant and contribution receivables	378,711
	<u>\$ 11,072,314</u>

As of December 31, 2014, all grants and contributions receivable are expected to be collected within one year.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 4. Deferred Grant Revenue and Refundable Advances

Deferred grant revenue and refundable advances consist of the following at December 31, 2014:

Other restricted agreements	\$ 31,735,363
USDA monetization proceeds	17,432,539
USAID agreements	217,173
	<u>\$ 49,385,075</u>

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 8% 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 \$1,879,443 for the year ended December 31, 2014, and those amounts are included in salaries, wages and employee benefits on 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, 2014, are as follows:

Year Ending December 31,

2015	\$ 1,993,094
2016	1,283,804
2017	1,002,888
2018	778,291
2019	725,527
2020 – 2021	1,056,450
	<u>\$ 6,840,054</u>

Rent expense was \$1,991,096 for the year ended December 31, 2014.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 7. Temporarily Restricted Net Assets

During the year ended December 31, 2014, TechnoServe received \$1,458,084 of temporarily restricted contributions. TechnoServe incurred expenses and other adjustments on temporarily restricted contributions of \$2,763,853. At December 31, 2014, TechnoServe has a temporarily restricted net asset balance of \$1,872,143. Temporarily restricted net assets consist of contributions restricted due to time and 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. Conditional Contributions

As of December 31, 2014, TechnoServe has \$108,244,287 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.