

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2015

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RSM US LLP

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, 2015, and 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 (collectively, 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, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited TechnoServe's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated 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 August 16, 2016, 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, grant agreements and other matters. The purpose of that report is to describe the scope of the 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* in considering TechnoServe's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
August 16, 2016

TechnoServe, Inc.

Consolidated Balance Sheet
December 31, 2015
(With Comparative Totals for 2014)

	2015	2014
Assets		
Cash and cash equivalents:		
In United States	\$ 30,810,005	\$ 38,246,334
In assisted countries	8,536,682	12,234,596
Total cash and cash equivalents	39,346,687	50,480,930
Certificates of deposit	1,000,000	1,000,000
Grants and contributions receivable, net	10,335,233	11,072,314
Other receivables	2,145,923	1,978,840
Prepaid expenses and other assets	1,892,125	2,209,215
Property and equipment, net	2,635,217	2,061,137
	\$ 57,355,185	\$ 68,802,436
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,500,072	\$ 3,531,731
Accrued employee benefits	3,558,143	3,042,745
Deferred rent and lease incentives	822,088	883,338
Deferred loan guarantees	1,424,647	2,553,682
Deferred grant revenue and refundable advances	39,505,441	49,385,075
	49,810,391	59,396,571
Commitments and contingencies (Notes 5, 6 and 8)		
Net assets:		
Unrestricted	7,004,647	7,533,722
Temporarily restricted	540,147	1,872,143
	7,544,794	9,405,865
	\$ 57,355,185	\$ 68,802,436

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Private contributions and grants	\$ 63,418,059	\$ 675,321	\$ 64,093,380	\$ 54,536,564
Government grants	22,034,570	-	22,034,570	21,711,994
Contributed services and in-kind	2,107,883	-	2,107,883	2,796,570
Other (loss) gain	(46,949)	-	(46,949)	544,854
Satisfaction of program restrictions	2,007,317	(2,007,317)	-	-
Total support and revenue	89,520,880	(1,331,996)	88,188,884	79,589,982
Expenses:				
Program services	77,406,453	-	77,406,453	68,576,719
Supporting services:				
Management and general	9,515,407	-	9,515,407	9,073,578
Fundraising	1,713,600	-	1,713,600	1,596,278
Total expenses	88,635,460	-	88,635,460	79,246,575
Change in net assets before translation adjustment	885,420	(1,331,996)	(446,576)	343,407
Currency translation adjustments	(1,414,495)	-	(1,414,495)	(100,915)
Change in net assets	(529,075)	(1,331,996)	(1,861,071)	242,492
Net assets:				
Beginning	7,533,722	1,872,143	9,405,865	9,163,373
Ending	\$ 7,004,647	\$ 540,147	\$ 7,544,794	\$ 9,405,865

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015			2014 Total	
	Program Services	Supporting Services			
		Management and General	Fundraising	Total	
Salaries, wages, and employee benefits	\$ 33,611,306	\$ 5,864,560	\$ 733,495	\$ 40,209,361	\$ 36,895,296
Outside services	12,910,656	1,354,464	833,329	15,098,449	13,678,744
Operational activities support	5,090,769	432,886	72,857	5,596,512	5,224,952
Office operations	3,574,554	1,177,301	28,998	4,780,853	4,785,444
In-country travel	3,749,624	162,965	19,689	3,932,278	3,926,045
Pass-through awards	9,462,861	-	-	9,462,861	4,190,302
Vehicle operations	2,838,392	7,526	2,280	2,848,198	3,023,577
International travel	2,542,268	306,615	21,130	2,870,013	2,545,871
Contributed services and in-kind	2,107,883	-	-	2,107,883	2,796,570
Equipment purchases	855,581	156,747	1,822	1,014,150	1,466,125
Depreciation	662,559	52,343	-	714,902	713,649
Total expenses	\$ 77,406,453	\$ 9,515,407	\$ 1,713,600	\$ 88,635,460	\$ 79,246,575

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets before translation adjustment	\$ (446,576)	\$ 343,407
Currency translation adjustment	(1,414,495)	(100,915)
Change in net assets	<u>(1,861,071)</u>	242,492
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Deferred rent and lease incentives	(61,250)	(62,508)
Depreciation	714,902	713,649
Bad debt (recovery) expense	(167,220)	403,298
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	904,301	(3,830,174)
Other receivables	(167,083)	(803,405)
Prepaid expenses and other assets	317,090	(575,444)
Increase (decrease) in:		
Accounts payable and accrued expenses	968,341	895,466
Accrued employee benefits	515,398	(64,039)
Deferred loan guarantees	(1,129,035)	(1,878,184)
Deferred grant revenue and refundable advances	(9,879,634)	10,410,709
Net cash (used in) provided by operating activities	<u>(9,845,261)</u>	<u>5,451,860</u>
Cash flows from investing activities:		
Capital expenditures	(1,303,395)	(506,363)
Proceeds from disposal of equipment	14,413	15,556
Proceeds from maturity of certificates of deposit	1,000,000	2,296,230
Purchases of certificates of deposit	(1,000,000)	(1,000,000)
Net cash (used in) provided by investing activities	<u>(1,288,982)</u>	<u>805,423</u>
Net (decrease) increase in cash and cash equivalents	(11,134,243)	6,257,283
Cash and cash equivalents:		
Beginning	<u>50,480,930</u>	<u>44,223,647</u>
Ending	<u>\$ 39,346,687</u>	<u>\$ 50,480,930</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), nonprofit 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.

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 unconditional support is recognized when notification of the contribution is 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 (Community Enterprise Development and Investment Trust Fund, locally registered in Ghana). 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, 2015.

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 (and certificates of deposits) 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 \$193,255 at December 31, 2015.

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.

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 consolidated 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 agreements 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 \$1,424,647 at December 31, 2015. 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.

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 12% each of total support and revenue for the year ended December 31, 2015. Additionally, as of December 31, 2015, approximately 21% 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, 2015, TechnoServe had a loss of \$1,414,495 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 all 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, 2015.

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 2012.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those 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, 2014, from which the summarized information was derived.

Recent accounting pronouncement: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. TechnoServe is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Subsequent events: TechnoServe evaluated subsequent events through August 16, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2. Property and Equipment

At December 31, 2015, property and equipment consist of the following:

Vehicles in program countries	\$ 7,912,526
Leasehold improvements	840,271
Building in Ghana	556,339
Furniture and equipment	640,695
Software	1,023,713
	<hr/>
	10,973,544
Less accumulated depreciation	(8,338,327)
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	<u>\$ 2,635,217</u>

Depreciation expense was \$714,902 for the year ended December 31, 2015.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 3. Grants and Contributions Receivable

As of December 31, 2015, grants and contributions receivable consist of the following:

Program specific, net of allowance	\$ 9,954,853
Other grant and contribution receivables	380,380
	<u>\$ 10,335,233</u>

As of December 31, 2015, 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, 2015:

Other restricted agreements	\$ 31,228,016
USDA monetization proceeds	8,190,964
USAID agreements	86,461
	<u>\$ 39,505,441</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 \$2,233,489 for the year ended December 31, 2015, 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. Additional space was added to the headquarters office in January 2015.

Under the lease agreement for the office space for the Washington, D.C. location, TechnoServe's monthly lease payments escalate annually. TechnoServe also initially received the benefit of a tenant improvement allowance of \$777,060. In 2015, the office space was expanded and an additional \$23,850 tenant improvement allowance was allotted. Both allowances are being amortized on a straight-line basis over the life of the lease. A deferred rent and lease incentive liability is recorded on the consolidated balance sheet in relation to the escalating lease payments and tenant improvement allowance.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 6. Operating Lease Commitments (Continued)

Scheduled minimum future lease payments under noncancelable operating leases as of December 31, 2015, are as follows:

Years ending December 31:

2016	\$	1,553,506
2017		1,026,699
2018		981,480
2019		812,644
2020		757,673
2021		365,890
	\$	<u>5,497,892</u>

Rent expense was \$2,100,753 for the year ended December 31, 2015.

Note 7. Temporarily Restricted Net Assets

During the year ended December 31, 2015, TechnoServe received \$675,321 of temporarily restricted contributions. TechnoServe incurred expenses and other adjustments on temporarily restricted contributions of \$2,007,317. At December 31, 2015, TechnoServe has a temporarily restricted net asset balance of \$540,147. Temporarily restricted net assets consist of contributions restricted due to time and purpose.

Note 8. 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, 2015, TechnoServe has \$100,172,330 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.