

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2010

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of TechnoServe, Inc. (TechnoServe) as of December 31, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the TechnoServe's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from TechnoServe's consolidated financial statements as of and for the year ended December 31, 2009 and, in our report dated October 1, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TechnoServe as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011, on our consideration of TechnoServe's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Vienna, Virginia
June 24, 2011

TechnoServe, Inc.

Consolidated Balance Sheet

December 31, 2010

(With Comparative Totals For 2009)

Assets	2010	2009
Cash And Cash Equivalents		
In United States	\$ 23,428,992	\$ 19,933,876
In assisted countries	3,266,445	3,344,560
Total cash and cash equivalents	26,695,437	23,278,436
Certificates Of Deposit	5,832,371	11,062,943
Grants And Contributions Receivable, net	5,440,964	6,376,044
Other Receivables, net	912,852	1,102,926
Other Assets	2,024,201	1,449,993
Property And Equipment, net	2,702,878	2,431,944
	\$ 43,608,703	\$ 45,702,286
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,565,960	\$ 1,805,008
Accrued employee benefits	2,993,665	2,874,144
Deferred grant revenue and refundable advances	28,126,782	28,242,802
	33,686,407	32,921,954
Commitments And Contingencies (Notes 6 and 9)		
Net Assets		
Unrestricted	4,758,451	5,821,173
Temporarily restricted	5,163,845	6,959,159
	9,922,296	12,780,332
	\$ 43,608,703	\$ 45,702,286

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement Of Activities
Year Ended December 31, 2010
(With Comparative Totals For 2009)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue				
Private contributions and grants	\$ 39,863,025	\$ 3,017,355	\$ 42,880,380	\$ 31,416,185
Government grants	9,200,533	-	9,200,533	15,407,234
Contributed services	3,681,440	-	3,681,440	2,685,616
Other (loss) gain	220,804	-	220,804	496,830
Satisfaction of program restrictions	4,812,669	(4,812,669)	-	-
Total support and revenue	57,778,471	(1,795,314)	55,983,157	50,005,865
Expenses				
Program Services	48,950,679	-	48,950,679	40,837,625
Supporting Services				
Management and general	7,781,340	-	7,781,340	6,722,601
Fundraising	1,584,086	-	1,584,086	1,511,672
Total expenses	58,316,105	-	58,316,105	49,071,898
Change in net assets before translation adjustment	(537,634)	(1,795,314)	(2,332,948)	933,967
Currency Translation Adjustment	(525,088)	-	(525,088)	-
Change in net assets	(1,062,722)	(1,795,314)	(2,858,036)	933,967
Net Assets				
Beginning	5,821,173	6,959,159	12,780,332	11,846,365
Ending	\$ 4,758,451	\$ 5,163,845	\$ 9,922,296	\$ 12,780,332

See Notes to Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2010
(With Comparative Totals For 2009)

	2010				2009 Total
	Program Services	Management And General	Fundraising	Total	
Salaries, wages, and employee benefits	\$ 21,171,202	\$ 4,003,788	\$ 596,414	\$ 25,771,404	\$ 21,035,607
Office operations	3,007,142	1,184,180	62,440	4,253,762	3,897,036
International travel	2,395,721	417,870	23,076	2,836,667	2,299,501
In-country travel	5,208,997	248,309	32,264	5,489,570	4,976,229
Equipment purchases	1,089,017	223,796	763	1,313,576	1,261,378
Outside services	6,481,958	1,249,084	829,513	8,560,555	7,328,784
Depreciation	1,081,655	125,487	-	1,207,142	921,651
Donated services	3,681,440	-	-	3,681,440	2,685,616
Other	3,039,605	328,826	39,616	3,408,047	3,273,062
Pass-through awards	1,793,942	-	-	1,793,942	1,393,034
Total expenses	\$ 48,950,679	\$ 7,781,340	\$ 1,584,086	\$ 58,316,105	\$ 49,071,898

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

Consolidated Statement Of Cash Flows
Year Ended December 31, 2010
(With Comparative Totals For 2009)

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ (2,858,036)	\$ 933,967
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,207,142	921,651
Gain on sales of property and equipment	-	(69,635)
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	935,080	601,169
Other receivables	190,074	(382,167)
Other assets	(574,208)	(217,064)
Increase (decrease) in:		
Accounts payable and accrued expenses	760,952	(137,737)
Accrued employee benefits	119,521	289,702
Deferred grant revenue and refundable advances	(116,020)	(914,320)
Net cash (used in) provided by operating activities	(335,495)	1,025,566
Cash Flows From Investing Activities		
Proceeds from sales of property and equipment	-	82,611
Capital expenditures	(1,478,076)	(1,353,482)
Proceeds from maturity of certificates of deposit	5,230,572	9,692,230
Net cash provided by investing activities	3,752,496	8,421,359
Net increase in cash and cash equivalents	3,417,001	9,446,925
Cash And Cash Equivalents		
Beginning	23,278,436	13,831,511
Ending	\$ 26,695,437	\$ 23,278,436

See Notes To Consolidated Financial Statements.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

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

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

A summary of TechnoServe's significant accounting policies follows:

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

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

Basis of presentation: TechnoServe reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. TechnoServe did not have any permanently restricted net assets at December 31, 2010.

Foreign currency translation: Assets and liabilities of TechnoServe's foreign operations are translated into U.S. dollars at the applicable exchange rates at year-end. Related revenues and expenses are translated at the prevailing monthly average rate. Gains and losses resulting from foreign currency transactions are included in expenses. For the year ended December 31, 2010, TechnoServe had a loss of \$525,087 from foreign currency translation adjustments which is included in other losses on the consolidated statement of activities.

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. The allowance was \$15,000 at December 31, 2010.

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.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

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.

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.

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.

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.

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
Computer equipment	3 years – 5 years
Other equipment	7 years – 10 years

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

Concentration of risk: Support and revenue from the Gates Foundation, USAID, and USDA represented approximately 32%, 10% and 7%, respectively, of total support and revenue for the year ended December 31, 2010. Additionally, as of December 31, 2010, approximately 12% of TechnoServe's cash and cash equivalents are denominated in foreign currency amounts and subject to currency fluctuations. In addition, approximately 9% of the certificates of deposit held at December 31, 2010, are with financial institutions in foreign countries and are not covered by any type of insurance program in event of any of those financial institutions becoming illiquid.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

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

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, 2010.

TechnoServe follows the the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, TechnoServe may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

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 2007.

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

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TechnoServe's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Reclassification: Certain items in the December 31, 2009, consolidated financial statements have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets.

Subsequent events: TechnoServe evaluated subsequent events through June 24, 2011, which is the date the financial statements were available to be issued.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 2. Property and Equipment

At December 31, 2010, property and equipment consists of the following:

Furniture and equipment	\$ 801,412
Vehicles in program countries	5,481,554
Interest in leased building	556,339
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	6,839,305
Less accumulated depreciation	(4,136,427)
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	\$ 2,702,878
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Depreciation expense was \$1,207,142 for the year ended December 31, 2010.

Note 3. Grants And Contributions Receivable

As of December 31, 2010, grants and contributions receivable consists of the following:

Program specific	\$ 4,969,123
Other grant and contribution receivables	486,841
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	5,455,964
Allowance for doubtful accounts	(15,000)
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	\$ 5,440,964
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As of December 31, 2010, 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, 2010:

Gates Foundation agreements	\$ 15,890,970
USDA monetization proceeds	2,181,844
USAID agreements	464,128
Other restricted agreements	9,589,840
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	\$ 28,126,782
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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 equal to 9% of each participant's base compensation up to \$220,000. Vesting occurs at a rate of 100% after three years of services.

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 \$1,562,891 for the year ended December 31, 2010, and those amounts are included in salaries, wages and employee benefits in the accompanying consolidated statement of functional expenses.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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. Scheduled minimum future lease payments under noncancelable operating leases as of December 31, 2010, are as follows:

Years Ending December 31,	
2011	\$ 880,910
2012	729,123
2013	578,160
2014	587,447
2015	602,091
2016 – 2021	4,048,805
	<u>\$ 7,426,536</u>

Rent expense was \$1,471,593 for the year ended December 31, 2010.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions for the following purposes at December 31, 2010:

	Balance December 31, 2009	Restricted Contributions	Released	Balance December 31, 2010
South Africa	\$ 1,506,720	\$ 1,404,441	\$ 931,597	\$ 1,979,564
Home Office	2,328,880	461,390	1,502,705	1,287,565
Tanzania	754,838	524,237	609,033	670,042
Uganda	357,563	201,108	239,159	319,512
Peru	614,404	-	387,313	227,091
Ghana	555,978	-	363,950	192,028
Swaziland	160,307	-	49,032	111,275
Kenya	200,285	60,000	156,457	103,828
India	121,403	-	28,117	93,286
Mozambique	141,320	150,000	200,066	91,254
Nicaragua	2,945	25,000	-	27,945
Guatemala	111,749	-	89,308	22,441
Honduras	-	19,000	-	19,000
Peru/Chile	23,981	1,977	17,931	8,027
El Salvador	18,409	-	13,171	5,238
Haiti	60,377	150,000	205,786	4,591
Colombia	-	20,202	19,044	1,158
	<u>\$ 6,959,159</u>	<u>\$ 3,017,355</u>	<u>\$ 4,812,669</u>	<u>\$ 5,163,845</u>

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 8. Conditional Contributions

As of December 31, 2010, TechnoServe has conditional contribution receivables of \$30,431,632 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.

Note 9. Commitments And Contingencies

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

On December 19, 2005, TechnoServe was named the replacement beneficiary of an endowment fund held jointly by the United States Agency for International Development and the Government of Swaziland. As the beneficiary of the endowment fund, TechnoServe will provide support to develop the small and medium business sector in Swaziland. The expected term of the endowment is six years with an anticipated ending date of December 31, 2011. The estimated value of the endowment to support the Swaziland enterprise development activity is \$1,254,592 at December 31, 2010. The endowment is revocable and TechnoServe is required to submit an annual work plan that must be accepted before each year's obligation of funding of endowment principal and interest can be approved. USAID is free to remove TechnoServe as beneficiary of the endowment fund at their discretion. Accordingly, this transaction is accounted for as an exchange transaction and the endowment fund is not reflected in the assets or net assets of TechnoServe's consolidated balance sheet.