

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-17

Independent Auditor's Report

Board of Directors
TechnoServe, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TechnoServe, Inc. (TechnoServe), which comprise the consolidated statement of financial position as of December 31, 2019, 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, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TechnoServe as of December 31, 2019, 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 previously audited TechnoServe's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited statements from which it is derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020, 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 solely 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 effectiveness of TechnoServe's 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

McLean, Virginia
June 26, 2020

TechnoServe, Inc.

Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 52,056,837	\$ 42,207,862
Investments	-	746,540
Grants and contributions receivable, net	9,209,904	9,189,501
Program grants advances and other receivables	942,575	2,333,803
Prepaid expenses and other assets	2,477,792	2,131,302
Property and equipment, net	2,852,382	2,810,774
	<u>\$ 67,539,490</u>	<u>\$ 59,419,782</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,946,368	\$ 5,153,156
Accrued employee benefits	3,368,694	2,960,145
Deferred grant revenue and refundable advances	41,043,863	36,602,778
Deferred rent and lease incentives	2,488,941	1,986,657
Deferred loan guarantees	991,280	1,193,356
	<u>53,839,146</u>	<u>47,896,092</u>
Commitments, contingencies and risks (Notes 9 and 11)		
Net assets:		
Without donor restrictions	10,334,320	8,024,454
With donor restrictions	3,366,024	3,499,236
	<u>13,700,344</u>	<u>11,523,690</u>
	<u>\$ 67,539,490</u>	<u>\$ 59,419,782</u>

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Grants and contracts:				
U.S. government	\$ 21,594,377	\$ -	\$ 21,594,377	\$ 18,134,493
Other grants and contracts	54,325,127	-	54,325,127	56,676,558
Total grants and contracts	75,919,504	-	75,919,504	74,811,051
Private contributions	4,320,333	4,394,002	8,714,335	11,252,840
Contributed services and in-kind	2,885,222	-	2,885,222	2,602,979
Other gains, net	2,003,989	-	2,003,989	930,026
Program income	60,124	-	60,124	180,779
Interest income	208,206	-	208,206	685,166
Net assets released from donor restrictions	4,527,214	(4,527,214)	-	-
Total support and revenue	89,924,592	(133,212)	89,791,380	90,462,841
Expenses:				
Program services				
Africa	45,694,928	-	45,694,928	51,413,632
Latin America and Caribbean	20,141,743	-	20,141,743	14,972,380
India	3,323,607	-	3,323,607	3,581,825
Global	3,976,710	-	3,976,710	3,525,457
Total program services	73,136,988	-	73,136,988	73,493,294
Supporting services:				
Management and general	11,534,109	-	11,534,109	11,327,396
Fundraising	2,794,372	-	2,794,372	2,589,246
Total supporting services	14,328,481	-	14,328,481	13,916,642
Total expenses	87,465,469	-	87,465,469	87,409,936
Change in net assets before currency translation adjustments	2,459,123	(133,212)	2,325,911	3,052,905
Currency translation adjustments	(149,257)	-	(149,257)	(1,260,546)
Change in net assets	2,309,866	(133,212)	2,176,654	1,792,359
Net assets:				
Beginning	8,024,454	3,499,236	11,523,690	9,731,331
Ending	\$ 10,334,320	\$ 3,366,024	\$ 13,700,344	\$ 11,523,690

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019									2018 Total
	Program Services				Total Program Services	Supporting Services			Total	
	Africa	Latin America and Caribbean	India	Global		Management and General	Fundraising	Total Supporting Services		
Salaries and benefits	\$ 20,296,238	\$ 6,849,324	\$ 2,033,607	\$ 2,280,951	\$ 31,460,120	\$ 6,530,800	\$ 1,142,519	\$ 7,673,319	\$ 39,133,439	\$ 38,383,288
Professional services	5,653,918	4,887,559	390,761	363,462	11,295,700	944,507	1,376,830	2,321,337	13,617,037	14,727,418
Grants to implementing partners	6,148,426	3,512,916	-	-	9,661,342	-	-	-	9,661,342	9,799,207
Travel and meetings	4,382,699	1,123,362	398,897	383,629	6,288,587	491,951	95,539	587,490	6,876,077	6,370,037
Beneficiary training and support	3,052,582	1,614,028	43,002	13,893	4,723,505	4,803	344	5,147	4,728,652	4,598,407
Donated goods and services	1,157,184	46,929	101,076	114,989	1,420,178	1,465,045	-	1,465,045	2,885,223	2,602,979
Administrative costs	991,178	331,487	90,070	389,149	1,801,884	405,520	15,808	421,328	2,223,212	2,096,059
Occupancy and utilities	1,167,750	412,632	145,078	52,751	1,778,211	669,734	31	669,765	2,447,976	2,568,056
Vehicle operations	1,260,434	663,416	46,856	322,240	2,292,946	1,735	-	1,735	2,294,681	2,568,776
Equipment and software	766,154	480,854	34,769	30,280	1,312,057	860,997	104,184	965,181	2,277,238	2,188,881
Communication costs	818,365	219,236	39,491	25,366	1,102,458	159,017	59,117	218,134	1,320,592	1,506,828
Total expenses	\$ 45,694,928	\$ 20,141,743	\$ 3,323,607	\$ 3,976,710	\$ 73,136,988	\$ 11,534,109	\$ 2,794,372	\$ 14,328,481	\$ 87,465,469	\$ 87,409,936

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,176,654	\$ 1,792,359
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Deferred rent and lease incentives	502,284	1,102,889
Depreciation and amortization	666,416	1,090,595
Decrease in allowance for doubtful grants receivable	(119,924)	(76,161)
Change in discount on grants and contributions receivable	(2,308)	2,308
Realized and Unrealized gain on investment	-	(3,260)
Net gain from sale of property and equipment	(79,860)	(56,987)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	101,829	(666,610)
Program grant advances and other receivables	1,391,228	784,547
Prepaid expenses and other assets	(346,490)	92,898
Increase (decrease) in:		
Accounts payable and accrued expenses	793,212	145,033
Accrued employee benefits	408,549	(334,489)
Deferred grant revenue and refundable advances	4,441,085	(6,727,629)
Deferred loan guarantees	(202,076)	(6,494)
Net cash provided by (used in) operating activities	9,730,599	(2,861,001)
Cash flows from investing activities:		
Purchases of property and equipment	(708,024)	(2,830,044)
Proceeds from sale of property and equipment	79,860	56,987
Donated investments sold during the year (held at year-end)	746,540	(743,280)
Net cash used in investing activities	118,376	(3,516,337)
Net increase (decrease) in cash and cash equivalents	9,848,975	(6,377,338)
Cash and cash equivalents:		
Beginning	42,207,862	48,585,200
Ending	\$ 52,056,837	\$ 42,207,862
Supplemental disclosure of non-cash investing information:		
Donated operating investments held at year-end	\$ -	\$ 743,280

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) headquartered in Arlington, Virginia, is an international nonprofit development organization established in 1968. Its mission is to help entrepreneurial men and women in 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 operates in 26 countries across Africa, Latin America, the Caribbean and India. In India, operations are conducted through Ashwattha Advisors Private Limited (AAPL), a for-profit private limited company, which is 99% owned via shares by TechnoServe, Inc. Additionally, TechnoServe Inc. established the Community Enterprise Development Trust Fund (CEDT), a Ghana trust fund. TechnoServe operates in all other countries via representative offices or similar entities that are wholly controlled by TechnoServe Inc. Collectively, TechnoServe Inc., AAPL, CEDT and all other country offices are referred to as TechnoServe.

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 include the accounts for TechnoServe headquarters, all TechnoServe field offices AAPL and CEDT. All inter-entity transactions have been eliminated in consolidation.

Basis of presentation: TechnoServe reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net asset with donor restrictions.

Net assets without donor restrictions: Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired.

Net assets with donor restrictions: Net assets with donor restrictions represent net asset 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.

Cash and cash equivalents: TechnoServe considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

At times of the year, TechnoServe maintains cash balances at financial institutions in excess of federally insured limits (FDIC). At December 31, 2019, cash balances totaling \$41,477,876 exceeded the limit. However, management believes the risk in these institutions to be minimal. At December 31, 2019, cash totaling \$10,328,961 was held at numerous financial institutions outside the United States, which are not insured by the FDIC.

Notes to Consolidated Financial Statements

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

Investments: Investments with readily determinable fair values are reported at fair value based upon quoted market prices in active markets. Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses are determined on the basis of the average cost of securities sold and are reflected in the consolidated statement of activities. Dividend income is recorded on the date of record and interest income is recorded on an accrual basis.

Investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements

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.

Program grant advances and other receivables: TechnoServe advances funds to numerous implementing partners via grant and sub-award agreements. The advances are liquidated to grant expense upon receipt of validated financial and technical reports from the implementing partner. The other receivables include salary and travel advances to the staff in accordance with TechnoServe's policies and procedures.

Prepaid expenses and other assets: Prepaid expenses are future expenses that have been paid in advance. This primarily includes insurance and other premium payments, amortized over the benefit period. The other assets include security deposits paid for global offices.

Property and equipment: Property and equipment are stated at cost if purchased, or fair value on the date of contribution. TechnoServe capitalizes all expenditures for property and equipment over \$5,000. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets.

The estimated useful lives by asset class are as follows:

Vehicles	3 years
Leasehold improvements	Lesser of useful life or the life of the lease
Furniture and equipment	3-10 years
Software	3 years

Property and equipment acquired with U.S. federal funds and certain other donors are subject to rules governing disposition of such assets by the respective grant agreement or contract.

Notes to Consolidated Financial Statements

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

Deferred rent and lease incentives: TechnoServe has entered into operating leases for its Arlington, Virginia office as well offices in the regions of Africa, Latin America, the Caribbean and India where operations are undertaken. Under generally accepted accounting principles in the United States of America (U.S. GAAP), all rent abatements, fixed rent increases, and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and lease benefit in the accompanying consolidated statement of financial position.

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 \$991,280 at December 31, 2019. The full amount of this liability has been recognized on the consolidated statement of financial position 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 contracts and awards from several international agencies and governments, including the U.S., private foundations and corporations. This support is recognized as revenue when earned or, in the case of cost-reimbursable awards, as allowable costs are incurred in accordance with the grant terms. The portion of payments received under these grants and contracts that we have not yet been accrued as revenue is represented as refundable advances on the statement of financial position. Proceeds from the monetization of commodities associated with grants from the U.S. Department of Agriculture are also reported as refundable advances.

Private contributions: All unconditional contributions, including unconditional promises to give, are reported as support without donor restrictions 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 net assets with donor restrictions.

Contributions, which include unconditional promises to give, are recognized as support at fair value when received or pledged. Promises to give and bequests that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows and discounted using treasury bonds rates, applicable to the year in which the promises are received. Provisions for uncollected promises to give are made on a case by case basis, and determined based on management's judgment, donor creditworthiness, and other relevant factors.

Contributions received with donor-imposed conditions are recognized as revenue when the conditions have been substantially met. Amounts received in advance of satisfying the donor-imposed conditions are reported as deferred revenue until conditions are met.

Notes to Consolidated Financial Statements

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

Grants and contracts: TechnoServe receives funding under grants and contracts from the government of the United States of America, other countries, international multilateral organizations, large corporations, and private foundations for direct and indirect program costs. Grants and contracts are individually evaluated to determine if they are exchange or non-exchange transactions based on direct value received (or not received) by the resource provider. Exchange transactions are recognized as revenue is earned. Non-exchange transactions are recognized consistent with contribution accounting. This funding is generally subject to contractual conditions and restrictions, which must be met through incurring qualifying expenses for particular programs or meeting certain deliverables.

Revenue from conditional grants and contracts are is recognized only when funds are utilized to carry out the activity stipulated in the grant or contract agreement. Grants and contracts receivable represent amounts due from funding organizations for reimbursable expenses incurred. Cash received under conditional grants and contracts in advance of incurring the related expenses is reported as deferred revenue and grant advances. Any grants received that do not meet the criteria of a conditional grant are recognized as unconditional grant revenue when awarded.

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 support 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 expenses.

Foreign currency translation: The functional and reporting currency of TechnoServe is the U.S. Dollar. Transactions in non-U.S. Dollar currencies are initially recorded in U.S. Dollar equivalents at the applicable exchanges rates upon recognition (historical exchange rate). Monetary assets and monetary liabilities are revalued into U.S. Dollar equivalents at the applicable exchange rates at year-end. Nonmonetary assets and nonmonetary liabilities are maintained at historical exchanges rates. Gains or losses from the revaluation of monetary assets and liabilities are recognized as currency translation adjustments in the consolidated statement of activities.

Functional allocation of expenses: TechnoServe allocates expenses on a functional basis among its various programs and supporting services. Program expenses include the costs of the organization associated with the delivery of programs in the four major geographical regions where program activities are undertaken. Global expenses include programs that are thematic in nature or crosscut multiple regions. Classification of expenses is based upon the terms of conditions of each funding source and identified at the time of the award.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

Certain shared costs are incurred in the country offices of program delivery and benefit multiple programs. These shared costs are allocated across relevant programs based on one of the following methodologies: (1) project total direct costs; (2) project labor costs; or (3) project labor hours. The allocation methodology is determined for each country based upon the context and relationship between its shared costs, program services, and supporting activities. Shared costs that get allocated include the following categories:

<u>Cost Type</u>	<u>Description</u>
Shared staff	Administrative and management staff that support the office as a whole and technical staff that work across all country projects.
Office costs	Rent, office, supplies, communications, utilities, insurance and printing.
Professional services	Annual statutory audit, main office IT services, legal counsel and other non-project specific activities.
Shared travel	Non-project specific travel such as travel to TechnoServe annual and regional meetings.
Equipment	Certain investments for the main office, such as office furniture or IT equipment for shared staff.
Vehicle operations	Fuel, insurance, and maintenance of vehicles utilized by the shared staff or that are shared across all projects.
Other direct costs	Bank fees, all-staff meetings, professional development costs for shared staff, etc.

Income taxes: TechnoServe is exempt from the payment of taxes on income other than unrelated business income under IRC Section 501(c)(3) and is not a private foundation. TechnoServe had no net unrelated business income for the year ended December 31, 2019.

AAPL is a for-profit private limited company in India and is subject to tax on its income. AAPL pays taxes on an ongoing basis and had a net provision for the income tax liability of \$3,386 as of December 31, 2019. Any variation from AAPL's estimated income tax provision would be immaterial to the consolidated financial statements.

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 2016.

Use of estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

Recent accounting pronouncements: In February 2016, the FASB issued ASU No. 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, 2020, 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.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with TechnoServe's consolidated financial statement for the years ended December 31, 2018, from which the summarized information was derived.

Subsequent events: TechnoServe evaluated subsequent events through June 26, 2020, which is the date the consolidated financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared to be a pandemic. Actions taken across the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which TechnoServe operates.

Note 2. Cash and Cash Equivalents

TechnoServe maintains several bank accounts with financial institutions outside the U.S. in non-U.S. Dollar currencies. The cash and cash equivalents in non-U.S. Dollar currency accounts were \$6,674,565 as of December 31, 2019.

Note 3. Grants and Contributions Receivable

Receivables associated with grants and contracts as of December 31, 2019, were as follows:

U.S. government	\$ 2,426,128
Corporations	3,124,267
Other governments and public institutions	2,701,241
Contributions receivable	811,419
Private foundations	198,849
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	9,261,904
Less allowance for doubtful accounts	(52,000)
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	\$ 9,209,904
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TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 3. Grants and Contributions Receivable (Continued)

As of December 31, 2019, all grants and contracts receivable are expected to be collected within one year.

Contributions receivable expected to be received beyond one year are recorded at the present value of the expected future cash flows using a risk-adjusted discount rate. There were no contributions receivable beyond one year in 2019.

Note 4. Property and Equipment

At December 31, 2019, property and equipment consist of the following:

	Cost	Accumulated Depreciation/ Amortization	Net
Vehicles	\$ 4,630,923	\$ (3,614,803)	\$ 1,016,120
Software	1,240,975	(962,322)	278,653
Leasehold improvements	1,212,820	(162,197)	1,050,623
Furniture and equipment	785,765	(278,779)	506,986
	<u>\$ 7,870,483</u>	<u>\$ (5,018,101)</u>	<u>\$ 2,852,382</u>

Property and equipment includes the net book value of donor owned assets with a corresponding liability totaling \$531,682, comprising of vehicles worth \$471,568, and furniture equipment worth \$60,114. Depreciation and amortization expense for the year ended December 31, 2019, was \$666,416.

Note 5. Investment and Fair Value Measurements

During 2018, TechnoServe received a gift of closely-held stock in a U.S. Corporation (the company) worth \$743,280 at the time of the gift. The valuation of this stock is adjusted annually by the company. In 2019, TechnoServe liquidated this stock gift and received proceeds of \$746,540.

Note 6. Deferred Grant Revenue and Refundable Advances

Deferred grant revenue and refundable advances consist of the following at December 31, 2019:

Restricted agreements	\$ 18,470,451
USDA monetization proceeds	22,573,412
	<u>\$ 41,043,863</u>

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans

TechnoServe has a retirement savings plan under Section 401(k) of the Internal Revenue Code (IRC) for its U.S. employees and other expatriates living abroad. TechnoServe matches employee contributions up to 4% and provides an additional 4% discretionary contribution for each participant's base compensation up to \$220,000. The discretionary contributions are fully vested after participants complete three years of service.

TechnoServe has also adopted several host country national plans for employees living abroad who are not covered by the 401(k) plan. The contributions made to these plan for both employer and employee are governed per the local rules and regulations.

TechnoServe's contributions to the plans totaled \$1,882,526 for the year ended December 31, 2019, and are reported under salaries and benefits in the accompanying consolidated statement of functional expenses.

Note 8. Donor Restricted Net Assets

As of December 31, 2019, donor restricted net assets consist of the following:

Africa	\$ 1,366,943
Latin American and Caribbean	1,193,837
India	91,278
Global	713,966
	<u>\$ 3,366,024</u>

Donor restricted net assets released during the year ended December 31, 2019, were for the following:

Africa	\$ 2,393,063
Latin American and Caribbean	1,042,622
India	755,810
Global	335,719
	<u>\$ 4,527,214</u>

Note 9. Commitments, Contingencies and Risks

U.S. federal grants: TechnoServe participates in a number of federally assisted grant programs, which are subject to financial and compliance audits by the United States Agency for International Development (USAID) and the United States Department of Agriculture (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.

Notes to Consolidated Financial Statements

Note 9. Commitments, Contingencies and Risks (Continued)

Provisional indirect cost rates: Billings under cost-reimbursable U.S. government grants and contracts are calculated using provisional rates that permit recovery of indirect costs in accordance with TechnoServe's negotiated indirect cost rate agreement with the United States Department of Interior (DIO), TechnoServe's cognizant agency. These rates are subject to final determination by DOI. For the year ended December 31, 2019, revenue from U.S. government grants and contracts that were active during 2019 has been recognized using the actual rate achieved, which is less than the provisional rate currently approved by USDA. The difference between revenue recognized under the actual rate versus provisional rate was not material to these consolidated financial statements. In the opinion of management, adjustments, if any, from the final determination by USDA, will not have a material effect on TechnoServe's financial position as of December 31, 2019, or results of operations for the year then ended.

Concentration of revenue risk: Support and revenue from USAID represented approximately 10.31% of total support and revenue for the year ended December 31, 2019. Additionally, as of December 31, 2019, approximately 19.84% of TechnoServe's cash and cash equivalents are denominated in foreign currency amounts and subject to currency fluctuations.

Concentration of credit risk: TechnoServe maintains cash balances with federally insured institutions in excess of the federally insured limits, as well as in accounts located outside the United States. At December 31, 2019, TechnoServe held \$51,806,836 in uninsured accounts. Aside from normal currency fluctuation of non-U.S. Dollar denominated accounts, TechnoServe has not experienced any material losses in these accounts.

International operations: TechnoServe has field offices in various countries in Africa, Latin America, and the Caribbean, and India. The future results of TechnoServe's programs could be adversely affected by a number of potential factors such as changes in the political climate, inflation, and currency fluctuation.

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.

Operating lease commitments: TechnoServe has an operating lease agreement for new office space in Arlington, Virginia for its headquarters for a period of 11 years, expiring on February 28, 2030. The lease also includes a renewal option for a period of 5 years, which must be exercised within 12 to 18 months prior to the lease expiration date.

The new lease agreement contains a fixed escalation clause of 2.5% for an increase in the annual minimum rent. Under the terms of the lease, TechnoServe received a rent abatement for the first 18 months, a tenant improvement allowance of up to \$1,577,340, and \$312,458 to cover the termination fee associated with TechnoServe's prior office. The lease incentives are being amortized on a straight-line basis over the life of the new lease.

TechnoServe was also obligated under various other leases for its offices around the world. Rent expense under these leases for the year ended December 31, 2019, exclusive of pass-through operating costs, was \$1,989,698 and is included in occupancy and utilities expense in the accompanying consolidated statement of functional expenses.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 9. Commitments, Contingencies and Risks (Continued)

As of December 31, 2019, total future minimum lease payments required under the leases for TechnoServe's headquarters and other offices are as follows:

Years ending December 31:	
2020	\$ 1,843,026
2021	1,258,272
2022	1,104,729
2023	1,015,331
2024	935,437
Thereafter	4,558,873
	<u>\$ 10,715,668</u>

Note 10. Liquidity and Availability Disclosures

TechnoServe regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The table below represents financial assets available for general expenditures within one year of December 31, 2019.

Cash and cash equivalents	\$ 52,056,837
Grants and contributions receivable	9,209,904
Grant advances and other receivables	942,575
Total financial assets available	<u>62,209,316</u>
Other assets associated with charitable gift annuity agreements	(616,047)
Refundable advances	(41,043,863)
Donor restricted net assets	<u>(3,366,024)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,183,382</u>

TechnoServe has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See Note 11 for information about the TechnoServe's line of credit.

Principal and interest on programmatic investments and loans are not included in the analysis as those amounts are used solely to make new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portion of contributions receivable due within one year are considered available for use in meeting annual operating needs (liquid).

Note 11. Line of Credit

During 2018, TechnoServe entered into a line of credit agreement with a maximum borrowing amount of \$1,000,000. The line of credit expires on December 31, 2020. Borrowings under the line of credit bear interest at the LIBOR Daily Floating rate plus 2.5% points. As of December 31, 2019, there were no borrowings outstanding, nor any borrowings during calendar year 2019.

Note 12. Conditional Grants

As of December 31, 2019, TechnoServe has \$185,062,445 of revenue to be earned on various conditional grants from various sources including the U.S. government, other governments and public institutions, corporations and foundations. This amount is not recognized in the accompanying consolidated financial statements as such revenue is recognized over the multi-year period of each respective grant agreement, conditional upon management of TechnoServe complying with grant requirements.