

TechnoServe, Inc.

Consolidated Financial Report
December 31, 2017

Contents

Independent auditor's report	1-2
Financial statements	
Consolidated balance sheet	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-14



RSM US LLP

Independent Auditor's Report

To the 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 balance sheet as of December 31, 2017, 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, 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, 2017, 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.

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Report on Summarized Comparative Information

We have previously audited TechnoServe's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, 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

Washington, D.C.
September 28, 2018

TechnoServe, Inc.

**Consolidated Balance Sheet
December 31, 2017
(With Comparative Totals for 2016)**

	2017	2016
Assets		
Cash and cash equivalents:		
In United States	\$ 35,412,397	\$ 27,284,084
In assisted countries	13,172,803	10,783,652
Total cash and cash equivalents	48,585,200	38,067,736
Grants and contributions receivable, net	8,449,038	10,345,346
Other receivables	3,118,350	2,690,253
Prepaid expenses and other assets	2,224,200	2,035,492
Property and equipment, net	1,071,325	1,769,588
	\$ 63,448,113	\$ 54,908,415
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,008,123	\$ 5,807,721
Accrued employee benefits	3,294,634	3,891,101
Deferred rent and lease incentives	883,768	704,609
Deferred loan guarantees	1,199,850	895,157
Deferred grant revenue and refundable advances	46,710,017	38,387,990
	57,096,392	49,686,578
Commitments and contingencies (Notes 6 and 8)		
Net assets:		
Unrestricted	6,170,685	5,039,792
Temporarily restricted	181,036	182,045
	6,351,721	5,221,837
	\$ 63,448,113	\$ 54,908,415

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Private contributions and grants	\$ 60,024,928	\$ 35,000	\$ 60,059,928	\$ 60,932,703
Government grants	19,819,455	-	19,819,455	20,547,638
Contributed services and in-kind	1,272,029	-	1,272,029	2,567,426
Other gains, net	1,561,416	-	1,561,416	1,944,592
Interest income	238,454	-	238,454	78,877
Satisfaction of program restrictions	36,009	(36,009)	-	-
Total support and revenue	82,952,291	(1,009)	82,951,282	86,071,236
Expenses:				
Program services	69,436,833	-	69,436,833	75,597,552
Supporting services:				
Management and general	10,795,966	-	10,795,966	10,364,382
Fundraising	1,922,320	-	1,922,320	1,761,624
Total expenses	82,155,119	-	82,155,119	87,723,558
Change in net assets before translation adjustment	797,172	(1,009)	796,163	(1,652,322)
Currency translation adjustments	333,721	-	333,721	(670,635)
Change in net assets	1,130,893	(1,009)	1,129,884	(2,322,957)
Net assets:				
Beginning	5,039,792	182,045	5,221,837	7,544,794
Ending	\$ 6,170,685	\$ 181,036	\$ 6,351,721	\$ 5,221,837

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017				2016 Total
	Program Services	Supporting Services		Total	
		Management and General	Fundraising		
Salaries and benefits	\$ 31,546,078	\$ 6,292,941	\$ 757,493	\$ 38,596,512	\$ 40,482,345
Outside services	9,562,552	1,908,601	956,107	12,427,260	12,638,425
Pass-through awards	8,548,156	-	-	8,548,156	9,165,485
Operational activities support	6,232,683	447,656	85,450	6,765,789	7,855,319
Office operations	3,481,481	1,485,069	53,289	5,019,839	5,023,026
In-country travel	3,246,254	132,852	38,241	3,417,347	3,648,261
International travel	2,412,946	184,467	23,518	2,620,931	2,594,805
Vehicle operations	2,098,845	2,608	2,756	2,104,209	2,250,074
Contributed services and in-kind	1,272,029	-	-	1,272,029	2,490,917
Depreciation and amortization	401,408	307,080	-	708,488	885,851
Equipment purchases	634,401	34,692	5,466	674,559	689,050
Total expenses	\$ 69,436,833	\$ 10,795,966	\$ 1,922,320	\$ 82,155,119	\$ 87,723,558

See notes to consolidated financial statements.

TechnoServe, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,129,884	\$ (2,322,957)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Deferred rent and lease incentives	179,159	(117,479)
Depreciation and amortization	708,488	885,851
Bad debt expense	-	1,420,151
Net gain from sale of property and equipment	(108,022)	(2,204,671)
Changes in assets and liabilities		
(Increase) decrease in:		
Grants and contributions receivable	1,896,308	(1,430,264)
Other receivables	(428,097)	(544,330)
Prepaid expenses and other assets	(188,708)	(143,367)
Increase (decrease) in:		
Accounts payable and accrued expenses	(799,598)	1,307,649
Accrued employee benefits	(596,467)	332,958
Deferred loan guarantees	304,693	(529,490)
Deferred grant revenue and refundable advances	8,322,027	(1,117,451)
Net cash provided by (used in) operating activities	10,419,667	(4,463,400)
Cash flows from investing activities:		
Capital expenditures	(34,503)	(452,346)
Proceeds from disposal of property and equipment	132,300	2,636,795
Proceeds from maturity of certificates of deposit	-	1,000,000
Net cash provided by investing activities	97,797	3,184,449
Net increase (decrease) in cash and cash equivalents	10,517,464	(1,278,951)
Cash and cash equivalents:		
Beginning	38,067,736	39,346,687
Ending	\$ 48,585,200	\$ 38,067,736

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 include the accounts for TechnoServe headquarters, all TechnoServe field offices and Community Enterprise Development and Investment Trust Fund (CEDI), 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, 2017.

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 or are uninsured. 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 \$248,085 at December 31, 2017.

Property and equipment: Property and equipment have a useful life of more than one year and an acquisition cost of \$5,000 or more. Acquisitions under \$5,000 are expensed in the current year of operations. Property and equipment are carried at historical cost and are depreciated on the straight-line basis over their estimated useful lives.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

The estimated useful lives are as follows:

Vehicles in program countries	3 years
Leasehold improvements	Lesser of 10 years or the life of the lease
Furniture and equipment	3-10 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.

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 \$1,199,850 at December 31, 2017. 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 allowable 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 unconditional contributions, including unconditional promises to give, are reported as unrestricted support 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 support, which increase temporarily restricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

Grants, cooperative agreements and contracts are deemed to be exchange transactions and, accordingly, are recorded as unrestricted revenue. Grants, cooperative agreements and contracts receivable are amounts due from funding organizations for reimbursable expenses incurred. Deferred grant revenue and refundable advances represent cash advances received that are to be used for the implementation of the specific agreement's objectives. Grants or cooperative agreements that provide for reimbursement to TechnoServe of specified program, project and supporting services expenditures are recognized as unrestricted support as the reimbursable expenditures are incurred.

Grant solicitation and fund-raising costs: Grant solicitation costs consist of the costs of raising country-specific or project-specific grants from private donors or public sources such as governmental agencies. Fund-raising costs consist of expenses incurred in raising unrestricted contributions from private sources.

Contributed services and in-kind contributions: TechnoServe receives contributed services in support of its programs. Certain contributed services meet the criteria for recognition under generally accepted accounting principles. In-kind contributions received are valued and recorded as revenue at their fair value at the time the contribution is received. Contributed services and in-kind contributions are reflected on the consolidated statement of activities as contributions and program expenses.

Concentration of risk: Support and revenue from USDA and USAID represented approximately 13% and 11%, respectively, of total support and revenue for the year ended December 31, 2017. Additionally, as of December 31, 2017, approximately 27% of TechnoServe's cash and cash equivalents are denominated in foreign currency amounts and subject to currency fluctuations.

Foreign currency translation: The functional currency of TechnoServe is the U.S. dollar. Transactions of TechnoServe's foreign operations are generally settled in the relevant local currency. In June 2017, TechnoServe implemented a process whereby transactions settled in a currency other than the U.S. dollar are translated into U.S. dollars at the prevailing daily exchange rate. Prior to June 2017, related revenues and expenses were translated at the prevailing monthly average rate. Gains and losses resulting from foreign currency transactions are included in expenses.

Monetary assets and liabilities of TechnoServe's foreign operations are translated into U.S. dollars at the applicable exchange rates at year-end, while non-monetary assets and liabilities are translated at historical rates. For the year ended December 31, 2017, TechnoServe had a gain of \$333,721 from foreign currency translation adjustments which is included in other gains, net 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 net unrelated business income for the year ended December 31, 2017.

Notes to Consolidated Financial Statements

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

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 2014.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with TechnoServe's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Recent accounting pronouncement: In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The amendments set forth the FASB's changes to net asset classification requirements and the information presented about a not-for-profit entity's endowments, liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Certain provisions of this standard will be required to be applied on a retrospective basis in the year the ASU is adopted. TechnoServe is currently evaluating the impact of the pending adoption of this standard on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, along with various updates in 2016 and 2015, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. TechnoServe is currently evaluating the impact of the pending adoption of this standard on its consolidated financial statements.

In February 2016, the FASB issued 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.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resource recipients for annual reporting periods beginning after December 15, 2018. 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 September 28, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2. Property and Equipment

At December 31, 2017, property and equipment consist of the following:

Vehicles in program countries	\$ 7,618,061
Software	1,254,004
Leasehold improvements	890,866
Furniture and equipment	787,846
	<u>10,550,777</u>
Less accumulated depreciation	<u>(9,479,452)</u>
	<u>\$ 1,071,325</u>

Depreciation expense was \$708,488 for the year ended December 31, 2017.

Note 3. Grants and Contributions Receivable

As of December 31, 2017, grants and contributions receivable consist of the following:

Program specific	\$ 8,485,528
Other grant and contribution receivables	211,595
	<u>8,697,123</u>
Less allowance for doubtful accounts	<u>(248,085)</u>
	<u>\$ 8,449,038</u>

As of December 31, 2017, all grants and contributions receivable are expected to be collected within one year.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 4. Deferred Grant Revenue and Refundable Advances

Deferred grant revenue and refundable advances consist of the following at December 31, 2017:

Restricted agreements	\$ 34,261,909
USDA monetization proceeds	12,190,257
USAID agreements	257,851
	<u>\$ 46,710,017</u>

Note 5. 401(k) Pension and Tax Sheltered Annuity Plans

U.S. employees and U.S. citizens and other expatriates living abroad may participate in the 401(k) pension plan. TechnoServe contributes to the plan an amount up to 8% of each participant's base compensation up to \$220,000. Vesting occurs at a rate of 100% after three years of service.

A host country national plan is available to all other TechnoServe employees living abroad who are not covered by the 401(k) plan. Employees are eligible upon completing six months of service. Both employee and employer contributions are dictated by local country policies.

TechnoServe's contributions to the plans totaled \$1,709,780 for the year ended December 31, 2017, and those amounts are included in salaries and benefits on the accompanying consolidated statement of functional expenses.

Note 6. Operating Lease Commitments

In August 2010, TechnoServe entered into an operating lease agreement for office space in Washington, D.C. for its headquarters which expires June 30, 2021. On December 28, 2017, TechnoServe notified the landlord that they will exercise their right to terminate their lease effective December 31, 2018. In January 2015, TechnoServe entered into an amendment for this lease for additional space. The amendment for additional space originally expired December 31, 2017, but was extended to December 31, 2018, through a second lease amendment entered into in December 2016. Subsequent to year-end on February 28, 2018, the lease for the additional space was further amended to terminate on March 31, 2018.

The original lease and lease amendments contain fixed escalation clauses for increases in the annual minimum rent. Under the terms of the original lease, TechnoServe received an allowance of \$777,060 for building improvements as an incentive to enter into the lease. The lease amendment provided for an allowance of \$23,850 as an incentive to enter into the lease amendment. Additionally, the original lease provided for rent abatement for the first two months of the lease and abatement of 50% of the rent obligation for the next eight months.

Under 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 balance sheet.

The original lease included an option to renew for an additional five-year period. The lease also contained a provision for early termination which TechnoServe exercised in December 2017. The amended lease terms provide for a termination fee of \$312,458, of which 50% is payable upon exercising the early termination option and 50% is payable upon vacating the space. The termination fee is included in operations expense in the accompanying consolidated statement of functional expenses.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

Note 6. Operating Lease Commitments (Continued)

In December 2017, TechnoServe entered into a new operating lease agreement for future office space in Arlington, Virginia. The lease has a term of 136 months and will commence on November 1, 2018. The lease contains a fixed escalation clause of 2.5% annual increases in the base minimum rent. As incentives to enter into the lease, the lease provides for a rent abatement for the first 18 months and also provides for a tenant allowance of up to \$1,577,340 which must be used by October 31, 2019. Up to \$315,468 of the unused tenant allowance may be applied to reduce rent.

Additionally, the new lease provides for the landlord to cover the cost of TechnoServe's termination fee of \$312,458 under its prior office lease as an incentive to enter into the lease. This amount is required to reduce the rent abatement period provided for in the lease.

The new lease also includes a renewal option for a period of five years which must be exercised within 12 to 18 months prior to the lease expiration date.

TechnoServe was also obligated under a lease for office space in Norwalk, Connecticut. This lease was entered into in July 2011 and, under the terms of an amendment, expired November 30, 2017. The lease was again amended in October 2017 to extend through February 28, 2018. Beginning March 1, 2018, TechnoServe leases this space on a month-to-month basis.

TechnoServe also leases office space in several foreign countries.

As of December 31, 2017, total future minimum lease payments required under the leases for TechnoServe's headquarters are as follows:

Years ending December 31:

2018	\$ 1,504,384
2019	416,239
2020	975,982
2021	817,673
2022	767,565
Thereafter	6,093,193
	<u>\$ 10,575,036</u>

Rent expense was \$2,229,389 for the year ended December 31, 2017.

Note 7. Temporarily Restricted Net Assets

During the year ended December 31, 2017, TechnoServe received \$35,000 of temporarily restricted contributions. TechnoServe incurred expenses and other adjustments on temporarily restricted contributions of \$36,009. At December 31, 2017, TechnoServe has a temporarily restricted net asset balance of \$181,036. Temporarily restricted net assets consist of contributions restricted due to time and purpose.

TechnoServe, Inc.

Notes to Consolidated Financial Statements

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.

TechnoServe's India project had an audit of a program for the period April 1, 2016 to March 31, 2017. The preliminary audit report has indicated questioned costs of approximately \$750,000. Management believes their response to the report and additional support provided on the costs will result in no significant questioned costs on this project.

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, 2017, TechnoServe has \$77,900,976 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.