

Compatible Technology International
St. Paul, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2010 and 2009

Carpenter *Evert*
Certified Public Accountants



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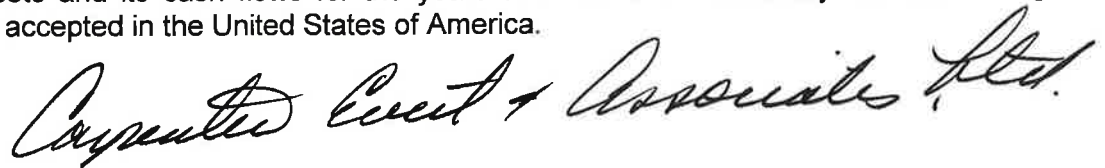
Independent Auditor's Report

Board of Directors
Compatible Technology International
St. Paul, Minnesota

We have audited the accompanying statements of financial position of Compatible Technology International as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Compatible Technology International as of June 30, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

Minneapolis, Minnesota
September 15, 2010

EXHIBIT A

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	2010			2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:							
Contributions	\$ 272,374	\$ 393,618	\$ -	\$ 185,271	\$ 31,000	\$ -	\$ 216,271
In-kind Contributions	502,065	-	-	397,001	-	-	397,001
Special Events (Net of Direct Expenses of \$15,118 in 2010 and \$7,412 in 2009)	46,272	-	-	37,529	-	-	37,529
Product Sales	18,288	-	-	23,496	-	-	23,496
Investment and Other Income	7,380	-	-	6,709	-	-	6,709
Net Assets Released from Restrictions:							
Satisfaction of Program Restrictions	110,975	(110,975)	-	18,690	(18,690)	-	-
Total Support and Revenue	957,354	282,643	-	668,696	12,310	-	681,006
Expense:							
Program Services:							
Technology Development	259,796	-	-	459,415	-	-	459,415
Technology Implementation	588,531	-	-	155,376	-	-	155,376
Total Program Services	848,327	-	-	614,791	-	-	614,791
Support Services:							
Management and General	80,870	-	-	78,658	-	-	78,658
Fundraising	58,288	-	-	37,961	-	-	37,961
Total Support Services	139,158	-	-	116,619	-	-	116,619
Total Expense	987,485	-	-	731,410	-	-	731,410
Change in Net Assets From Operations	(30,131)	282,643	-	(62,714)	12,310	-	(50,404)
Other Changes in Net Assets:							
Unrealized Gain (Loss) in Beneficial Interest in Assets Held by Presbyterian Church (USA) Foundation	-	-	5,133	-	-	(37,143)	(37,143)
Change in Net Assets	(30,131)	282,643	5,133	(62,714)	12,310	(37,143)	(87,547)
Net Assets - Beginning of Year	95,034	43,246	97,342	157,748	30,936	134,485	323,169
Net Assets - End of Year	\$ 64,903	\$ 325,889	\$ 102,475	\$ 95,034	\$ 43,246	\$ 97,342	\$ 235,622

The accompanying Notes to Financial Statements are an integral part of these statements.

EXHIBIT B

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR 2009

	2010						2009	
	Program Services			Support Services			Total	Total
	Technology Development	Technology Implementation	Total Program Services	Management & General	Fund-raising	Total Support Services	All Services	All Services
Salary Expense	\$ 8,131	\$ 23,147	\$ 31,278	\$ 10,488	\$ 21,414	\$ 31,902	\$ 63,180	\$ 54,225
Payroll Taxes and Benefits	681	1,937	2,618	881	1,787	2,668	5,286	6,159
Total Personnel Costs	8,812	25,084	33,896	11,369	23,201	34,570	68,466	60,384
In-kind Services	173,966	323,080	497,046	-	-	-	497,046	370,890
Professional Fees	25,886	88,714	114,600	31,493	31,072	62,565	177,165	151,443
Travel	22,590	49,586	72,176	518	3,663	4,181	76,357	43,180
Project Expense	11,973	44,837	56,810	-	-	-	56,810	13,820
Rent	7,568	21,539	29,107	4,863	-	4,863	33,970	33,221
Production Expenses	-	24,373	24,373	-	-	-	24,373	17,190
Printing	2,125	628	2,753	9,555	293	9,848	12,601	8,250
Supplies	2,546	2,779	5,325	5,376	36	5,412	10,737	8,027
Utilities	2,187	4,281	6,468	3,459	-	3,459	9,927	7,038
Other Expense	13	2,156	2,169	3,231	-	3,231	5,400	696
Insurance	-	-	-	4,715	-	4,715	4,715	4,736
Postage and Shipping	1,530	315	1,845	2,121	23	2,144	3,989	7,945
Interest and Bank Fees	-	-	-	2,210	-	2,210	2,210	122
Meetings and Conferences	393	928	1,321	126	-	126	1,447	1,674
Advertising and Promotion	59	168	227	581	-	581	808	104
Volunteer Expense	148	63	211	-	-	-	211	1,133
Depreciation	-	-	-	1,253	-	1,253	1,253	1,557
Total Expense	\$ 259,796	\$ 588,531	\$ 848,327	\$ 80,870	\$ 58,288	\$ 139,158	\$ 987,485	\$ 731,410

The accompanying Notes to Financial Statements are an integral part of this statement.

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services			Support Services			Total All Services
	Technology Development	Technology Implementation	Program Services	Management & General	Fund-raising	Support Services	
Salary Expense	\$ 10,371	\$ 16,223	\$ 26,594	\$ 13,946	\$ 13,685	\$ 27,631	\$ 54,225
Payroll Taxes and Benefits	994	1,554	2,548	1,838	1,773	3,611	6,159
Total Personnel Costs	11,365	17,777	29,142	15,784	15,458	31,242	60,384
In-kind Services	370,890	-	370,890	-	-	-	370,890
Professional Fees	49,207	51,329	100,536	29,496	21,411	50,907	151,443
Travel	10,464	32,611	43,075	-	105	105	43,180
Project Expense	2,612	11,208	13,820	-	-	-	13,820
Rent	11,060	17,298	28,358	4,863	-	4,863	33,221
Production Expenses	-	17,190	17,190	-	-	-	17,190
Printing	900	1,408	2,308	5,942	-	5,942	8,250
Supplies	406	991	1,397	6,630	-	6,630	8,027
Utilities	164	256	420	6,618	-	6,618	7,038
Other Expense	-	-	-	333	363	696	696
Insurance	-	-	-	4,736	-	4,736	4,736
Postage and Shipping	1,485	4,144	5,629	1,796	520	2,316	7,945
Interest and Bank Fees	-	-	-	122	-	122	122
Meetings and Conferences	394	499	893	781	-	781	1,674
Advertising and Promotion	-	-	-	-	104	104	104
Volunteer Expense	468	665	1,133	-	-	-	1,133
Depreciation	-	-	-	1,557	-	1,557	1,557
Total Expense	\$ 459,415	\$ 155,376	\$ 614,791	\$ 78,658	\$ 37,961	\$ 116,619	\$ 731,410

The accompanying Notes to Financial Statements are an integral part of this statement.

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 148,369	\$ 106,172
Restricted Cash	68,967	-
Accounts Receivable	7,604	4,774
Pledges Receivable	105,117	-
Inventory	15,448	22,457
Prepaid Expenses	3,792	6,509
Total Current Assets	<u>349,297</u>	<u>139,912</u>
Pledges Receivable	80,498	-
Beneficial Interest in Assets Held by the Presbyterian Church (USA) Foundation	102,475	97,342
Furniture and Equipment - Net	<u>241</u>	<u>1,494</u>
TOTAL ASSETS	<u>\$ 532,511</u>	<u>\$ 238,748</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 17,102	\$ 2,257
Accrued Salaries, Wages and Benefits	2,036	869
Other Accrued Expenses	19,892	-
Deferred Revenue	214	-
Total Current Liabilities	<u>39,244</u>	<u>3,126</u>
Net Assets:		
Unrestricted	64,903	95,034
Temporarily Restricted	325,889	43,246
Permanently Restricted	102,475	97,342
Total Net Assets	<u>493,267</u>	<u>235,622</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 532,511</u>	<u>\$ 238,748</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 257,645	\$ (87,547)
Total Adjustments	<u>(146,481)</u>	<u>57,420</u>
Net Cash Provided (Used) by Operating Activities	111,164	(30,127)
Cash Flows from Investing Activities:		
None	-	-
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	111,164	(30,127)
Cash and Cash Equivalents - Beginning of Year	<u>106,172</u>	<u>136,299</u>
Cash and Cash Equivalents - End of Year	<u>\$ 217,336</u>	<u>\$ 106,172</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies

Organizational Purpose

Compatible Technology International (CTI) works to improve the lives of people in developing countries by designing food and water technologies that are sustainable and appropriate to local cultures, and by collaborating with in-country organizations to identify needs and to achieve widespread use of our technologies to relieve hunger and poverty.

CTI's programs are as follows:

Technology Development – CTI seeks to develop new ways of processing food and purifying water with simple devices for countries in Asia, Africa and Central America. This program encompasses such activities as developing new devices to process food like a thresher and a portion of the McKnight grant we received this year.

Technology Implementation – In addition to developing new technologies CTI seeks to spread the use of the developed technologies to Asia, Africa and Central America. This program encompasses such things as grinder sales, processing of potatoes in India, water purification in Central America, the processing of moringa and a portion of the McKnight grant we received this year.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to CTI, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restriction. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as part of unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of CTI resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be satisfied by actions of CTI.

Permanently Restricted Net Assets – Net assets resulting from contributions with donor-imposed stipulations that neither expire with time nor may be fulfilled by actions of CTI.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, CTI considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash Account

CTI was granted funds by the McKnight Foundation in the year ended June 30, 2010. As part of the grant agreement with McKnight, CTI must hold the grant funds, and any income earned on the grant funds, in a separate institutional account dedicated to the purposes of the grant. The balance in this account was \$68,967 at June 30, 2010.

Allowance for Doubtful Accounts

No allowance for doubtful accounts has been provided as accounts receivable are considered collectable.

Inventory

Inventory consists of products sold by CTI and is valued at the average cost.

Furniture and Equipment

All expenditures over \$1,000 for furniture and equipment are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is provided through the use of the straight-line method.

Contributions

Contributions are recorded as support when received or pledged. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions.

Promises-To-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies (continued)

Risks and Uncertainties

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Functional Allocation of Expense

Expenses are recorded in functional categories when incurred. In certain cases, allocations of expenses between categories must be made. When allocations are required, they are based on the best estimates of management.

Reclassifications

Certain amounts in the Statement of Functional Expenses for the year ended June 30, 2009 have been reclassified to conform to the presentation in the current year financial statements.

Income Tax

CTI has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. It continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible.

Subsequent Events

CTI has evaluated the effect that subsequent events would have on the financial statements through September 15, 2010, which is the date financial statements were available to be issued.

2. Significant Concentrations of Credit Risk

CTI provides services from the Twin Cities to locations throughout the world. Accounts receivable are due from domestic and international individuals and institutions.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

3. Furniture and Equipment

CTI owned the following as of:

	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>2010</u>	<u>2009</u>	
Furniture and Equipment	\$ 9,381	\$ 14,710	5-7 Years
Less Accumulated Depreciation	9,140	13,216	
	<u>\$ 241</u>	<u>\$ 1,494</u>	

Depreciation expense of \$1,253 and \$1,557 was recorded for the years ended June 30, 2010 and 2009, respectively.

4. Pledges Receivable

Pledges receivable are expected to be collected as follows:

<u>Due in the Year Ending June 30,</u>	
2011	\$ 107,000
2012	41,500
2013	<u>44,000</u>
Total Pledges Receivable	192,500
Less Discount to Present Value	<u>6,885</u>
Total Pledges Receivable	185,615
Less Current Portion	<u>105,117</u>
Long-term Portion	<u>\$ 80,498</u>

Imputed interest rate is 4%.

5. Fair Value

CTI adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") effective July 1, 2008. In accordance with SFAS 157, "fair value" is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. SFAS 157 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical investments.
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – Significant unobservable inputs.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. Fair Value (continued)

The following is a summary of the inputs used to determine the fair value at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets Held by the Presbyterian Foundation	\$ 102,475	\$ -	\$ -	\$ 102,475
Pledges Receivable	-	176,000	-	176,000
Total	<u>\$ 102,475</u>	<u>\$ 176,000</u>	<u>\$ -</u>	<u>\$ 278,475</u>

6. Beneficial Interest in Assets Held by the Presbyterian Church (USA) Foundation

CTI has an irrevocable beneficial interest to the annual income from assets donated to the Presbyterian Church (USA) Foundation. The assets are held in a fund under the control of the Presbyterian Church (USA) Foundation and are invested in a balanced growth mutual fund. CTI will continue to receive the annual income earned by these assets so long as it continues its work in India and maintains an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The original value of the donated assets was \$145,694. The fair value of the fund was \$102,475 and \$97,342 at June 30, 2010 and 2009, respectively.

7. Temporarily Restricted Net Assets

The purpose of temporarily restricted net assets is to account for funds received but not yet spent for the purpose intended by the donor. Temporarily restricted net assets included the following as of:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
McKnight Enhancing Child Nutrition and Livelihood in Malawi/Tanzania	\$ 240,484	\$ -
Fellowships at II Bombay	16,528	-
George Ewing Legacy Fund	12,678	13,063
Wallin Foundation East Africa	12,339	12,965
Water Chlorination in Nicaragua	11,633	-
Sales for Social Impact Case Study	10,000	-
Guatemala Water Project	8,862	8,862
Yackel Foundation Water Project	6,500	6,500
Haiti Relief	6,211	-
Grinders	654	-
Moringa Project	-	1,856
	<u>\$ 325,889</u>	<u>\$ 43,246</u>

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

8. In-kind Contributions

CTI records in-kind contributions at fair market value at date of donation. In-kind contributions included the following as of:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Technology, Research and Development Services – at \$35-\$75 per hour for 8,960 hours in 2010 and \$30-\$60 per hour for 7,365 hours in 2009.	\$ 497,046	\$ 370,890
Graphic Design	3,838	-
Program Supplies	967	-
Administration	150	-
Research and Development	64	422
Legal Services	-	25,389
Grinder Manufacturing	-	300
	<u>\$ 502,065</u>	<u>\$ 397,001</u>

9. Leased Facilities

Rental commitments under noncancelable leases for office space and equipment in effect at June 30, 2010, total \$91,624. The future annual rental commitments are as follows:

<u>Due in the Year Ending June 30,</u>	
2011	\$ 37,115
2012	36,238
2013	18,271
	<u>\$ 91,624</u>

Rental expense was \$33,970 and \$33,222 for the years ended June 30, 2010 and 2009, respectively.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

10. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash (Used) by Operating Activities are as follows as of:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Depreciation	\$ 1,253	\$ 1,557
Unrealized (Gain)/Loss in Beneficial Interest in Assets Held by Presbyterian Church (USA) Foundation	(5,133)	37,143
Long-term Pledges Receivable	(80,498)	-
Increases (Decreases) in Current Liabilities:		
Accounts Payable	14,845	(1,010)
Accrued Salaries, Wages and Benefits	1,167	299
Deferred Revenue	214	(717)
Other Accrued Expenses	19,892	-
Decreases (Increases) in Current Assets:		
Accounts Receivable	(2,830)	1,148
Pledges Receivable	(105,117)	2,551
Inventory	7,009	13,669
Prepaid Expenses	2,717	2,780
Total Adjustments	<u>\$ (146,481)</u>	<u>\$ 57,420</u>