

Compatible Technology International
St. Paul, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2011 and 2010

Carpenter *Evert*
Certified Public Accountants



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Carpenter *Evert*

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, 2011 and 2010, 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, 2011 and 2010, 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 28, 2011

EXHIBIT A

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDING JUNE 30, 2011 AND 2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 215,337	\$ 203,735	-	\$ 419,072	\$ 272,374	\$ 393,618	-	\$ 665,992
In-kind Contributions	784,815	-	-	784,815	502,065	-	-	502,065
Special Events (Net of Direct Expenses of \$16,267 in 2011 and \$15,118 in 2010)	70,183	-	-	70,183	46,272	-	-	46,272
Product Sales	31,863	-	-	31,863	18,288	-	-	18,288
Investment and Other Income	8,032	-	-	8,032	7,380	-	-	7,380
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	276,688	(276,688)	-	-	110,975	(110,975)	-	-
Total Support and Revenue	1,386,918	(72,953)	-	1,313,965	957,354	282,643	-	1,239,997
Expense:								
Program Services:								
Technology Development	454,785	-	-	454,785	259,796	-	-	259,796
Technology Implementation	882,565	-	-	882,565	588,531	-	-	588,531
Total Program Services	1,337,350	-	-	1,337,350	848,327	-	-	848,327
Support Services:								
Management and General Fundraising	96,345	-	-	96,345	80,870	-	-	80,870
Total Support Services	77,663	-	-	77,663	58,288	-	-	58,288
Total Expense	174,008	-	-	174,008	139,158	-	-	139,158
	1,511,358	-	-	1,511,358	987,485	-	-	987,485
Change in Net Assets From Operations	(124,440)	(72,953)	-	(197,393)	(30,131)	282,643	-	252,512
Other Changes in Net Assets:								
Unrealized Gain in Beneficial Interest in Assets Held by Presbyterian Church (USA) Foundation	-	-	13,011	13,011	-	-	5,133	5,133
Change in Net Assets	(124,440)	(72,953)	13,011	(184,382)	(30,131)	282,643	5,133	257,645
Net Assets - Beginning of Year	64,903	325,889	102,475	493,267	95,034	43,246	97,342	235,622
Net Assets - End of Year	\$ (59,537)	\$ 252,936	\$ 115,486	\$ 308,885	\$ 64,903	\$ 325,889	\$ 102,475	\$ 493,267

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, 2011 WITH COMPARATIVE TOTALS FOR 2010

	2011					2010	
	Program Services		Support Services			Total All Services	Total All Services
	Technology Development	Technology Implementation	Program Services	Management & General	Fund-raising	Support Services	Total All Services
Salary Expense	\$ 62,922	\$ 111,043	\$ 173,965	\$ 21,834	\$ 54,104	\$ 75,938	\$ 249,903
Payroll Taxes and Benefits	3,894	9,533	13,427	1,780	4,375	6,155	19,582
Total Personnel Costs	66,816	120,576	187,392	23,614	58,479	82,093	269,485
In-kind Services	239,800	537,530	777,330	301	-	301	777,631
Professional Fees	23,820	50,799	74,619	31,854	12,870	44,724	119,343
Travel	58,536	67,050	125,586	1,816	898	2,714	128,300
Project Expense	33,712	37,367	71,079	-	-	-	71,079
Rent	8,980	21,986	30,966	4,863	-	4,863	35,829
Production Expenses	-	31,500	31,500	-	-	-	31,500
Meetings and Conferences	17,904	6,486	24,390	925	2,877	3,802	28,192
Utilities	2,095	4,679	6,774	5,834	19	5,853	12,627
Supplies	1,701	1,927	3,628	7,852	747	8,599	12,227
Printing	410	1,003	1,413	5,883	799	6,682	8,095
Insurance	-	-	-	4,628	-	4,628	4,628
Interest and Bank Fees	-	-	-	4,127	-	4,127	4,127
Postage and Shipping	574	668	1,242	1,925	495	2,420	3,662
Other Expense	362	260	622	667	479	1,146	1,768
Advertising and Promotion	33	734	767	83	-	83	850
Volunteer Expense	42	-	42	-	-	-	42
Depreciation	-	-	-	1,973	-	1,973	1,973
Total Expense	\$ 454,785	\$ 882,565	\$ 1,337,350	\$ 96,345	\$ 77,663	\$ 174,008	\$ 1,511,358
							\$ 987,485

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

EXHIBIT C

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2010

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

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

COMPATIBLE TECHNOLOGY INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 48,996	\$ 148,369
Restricted Cash	77,921	68,967
Accounts Receivable	9,002	7,604
Pledges Receivable	25,000	105,117
Inventory	17,190	15,448
Prepaid Expenses	3,547	3,792
Total Current Assets	<u>181,656</u>	<u>349,297</u>
Pledges Receivable	41,853	80,498
Beneficial Interest in Assets Held by the Presbyterian Church (USA) Foundation	115,486	102,475
Furniture and Equipment - Net	<u>4,195</u>	<u>241</u>
TOTAL ASSETS	<u>\$ 343,190</u>	<u>\$ 532,511</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 23,210	\$ 17,102
Accrued Salaries, Wages and Benefits	10,881	2,036
Other Accrued Expenses	-	19,892
Deferred Revenue	214	214
Total Current Liabilities	<u>34,305</u>	<u>39,244</u>
Net Assets:		
Unrestricted	(59,537)	64,903
Temporarily Restricted	252,936	325,889
Permanently Restricted	115,486	102,475
Total Net Assets	<u>308,885</u>	<u>493,267</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 343,190</u>	<u>\$ 532,511</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (184,382)	\$ 257,645
Total Adjustments	<u>99,891</u>	<u>(146,481)</u>
Net Cash Provided (Used) by Operating Activities	(84,491)	111,164
Cash Flows from Investing Activities:		
Furniture and Equipment Purchases	(5,928)	-
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(90,419)	111,164
Cash and Cash Equivalents - Beginning of Year	<u>217,336</u>	<u>106,172</u>
Cash and Cash Equivalents - End of Year	<u>\$ 126,917</u>	<u>\$ 217,336</u>

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

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 AND 2010

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 \$77,921 and \$68,967 at June 30, 2011 and 2010, respectively.

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivable are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews accounts receivable balances on a periodic basis and writes off delinquent receivable when they are considered uncollectible. 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.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (continued)

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.

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.

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization 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 28, 2011, which is the date financial statements were available to be issued.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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.

3. Furniture and Equipment

CTI owned the following as of:

	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>2011</u>	<u>2010</u>	
Furniture and Equipment	\$ 15,308	\$ 9,381	5-7 Years
Less Accumulated Depreciation	<u>11,113</u>	<u>9,140</u>	
	<u>\$ 4,195</u>	<u>\$ 241</u>	

Depreciation expense of \$1,973 and \$1,253 was recorded for the years ended June 30, 2011 and 2010, respectively.

4. Pledges Receivable

Pledges receivable are expected to be collected as follows:

<u>Due in the Year Ending June 30,</u>	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
2011	\$ -	\$ 107,000
2012	25,000	41,500
2013	<u>44,000</u>	<u>44,000</u>
Total Pledges Receivable	69,000	192,500
Less Discount to Present Value	<u>2,147</u>	<u>6,885</u>
Total Pledges Receivable	66,853	185,615
Less Current Portion	<u>25,000</u>	<u>105,117</u>
Long-term Portion	<u>\$ 41,853</u>	<u>\$ 80,498</u>

Imputed interest rate is 4%.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Fair Value

CTI adopted Financial Accounting Standards Board Accounting Standards Codification Topic 820 Fair Value Measurements and Disclosures ("ASC 820"). In accordance with ASC 820, "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. ASC 820 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:

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.

The following is a summary of the inputs used to determine the fair value at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets				
Held by the Presbyterian				
Foundation	\$ 115,486	\$ -	\$ -	\$ 115,486
Pledges Receivable	-	66,853	-	66,853
Total	<u>\$ 115,486</u>	<u>\$ 66,853</u>	<u>\$ -</u>	<u>\$ 182,339</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 \$115,486 and \$102,475 at June 30, 2011 and 2010, respectively.

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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>2011</u>	<u>2010</u>
McKnight Enhancing Child Nutrition and Livelihood in Malawi/Tanzania	\$ 119,072	\$ 240,484
Sales for Social Impact Case Study	35,350	10,000
Water Chlorination in Nicaragua	28,475	11,633
Viet Nam Cocoa Project	18,000	-
George Ewing Legacy Fund	12,678	12,678
Wallin Foundation East Africa	12,339	12,339
Small Seeds Grain Crops	8,927	-
Guatemala Water Project	6,975	8,862
Tanzania	4,250	-
Haiti Relief	3,642	6,211
Fellowships at IIT Bombay	3,325	16,528
Grinders	1,903	654
Yackel Foundation Water Project	-	6,500
	<u>\$ 252,936</u>	<u>\$ 325,889</u>

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>2011</u>	<u>2010</u>
Technology, Research and Development Services – at \$35-\$75 per hour for 12,418 hours in 2011 and \$35-\$75 per hour for 8,960 hours in 2010.	\$ 777,073	\$ 497,046
Travel	2,943	-
Program Supplies	2,285	967
Grinder Manufacturing	2,213	-
Administration	301	105
Graphic Design	-	3,838
Research and Development	-	64
	<u>\$ 784,815</u>	<u>\$ 502,065</u>

COMPATIBLE TECHNOLOGY INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

9. Leased Facilities

Rental commitments under noncancelable leases for office space and equipment in effect at June 30, 2011, total \$54,509. The future annual rental commitments are as follows:

<u>Due in the Year Ending June 30,</u>	
2012	\$ 36,238
2013	<u>18,271</u>
	<u>\$ 54,509</u>

Rental expense was \$35,829 and \$33,970 for the years ended June 30, 2011 and 2010, respectively.

10. Cash Flow Operating Adjustments

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

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Depreciation	\$ 1,973	\$ 1,253
Unrealized (Gain) in Beneficial Interest in Assets Held by Presbyterian Church (USA) Foundation	(13,010)	(5,133)
Long-term Pledges Receivable	38,645	(80,498)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	6,108	14,845
Accrued Salaries, Wages and Benefits	8,845	1,167
Deferred Revenue	-	214
Other Accrued Expenses	(19,892)	19,892
Decreases (Increases) in Current Assets:		
Accounts Receivable	(1,398)	(2,830)
Pledges Receivable	80,117	(105,117)
Inventory	(1,742)	7,009
Prepaid Expenses	245	2,717
Total Adjustments	<u>\$ 99,891</u>	<u>\$ (146,481)</u>