



FINANCIAL REPORT

September 30, 2008 and 2007

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
New Horizon Technologies, Inc.  
Butte, Montana

We have compiled the accompanying balance sheets of New Horizon Technologies, Inc. as of September 30, 2008 and 2007, and the related statements of income, stockholders' equity (deficit), and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting information that is the representation of management. We have not audited or reviewed the accompanying September 30, 2008 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

*Anderson Zurmuehlen + Co., P.C.*

Butte, Montana  
January 6, 2009

NEW HORIZON TECHNOLOGIES, INC.  
BALANCE SHEETS  
September 30, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 88,759	\$ 82,395
Certificate of deposit	50,911	50,739
Receivables	-	48,796
Prepaid expenses	<u>2,138</u>	<u>2,471</u>
Total current assets	<u>141,808</u>	<u>184,401</u>
<b>OTHER ASSETS</b>		
Deferred tax asset	<u>16,027</u>	<u>18,880</u>
Total other assets	<u>16,027</u>	<u>18,880</u>
<b>TOTAL ASSETS</b>	<u>\$ 157,835</u>	<u>\$ 203,281</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - related parties	\$ 3,423	\$ 8,469
Accounts payable - trade	-	26,585
Accrued expenses	50	50
Current maturities of long-term debt -related party	<u>29,915</u>	<u>21,943</u>
Total current liabilities	<u>33,388</u>	<u>57,047</u>
LONG TERM DEBT - related party	<u>135,827</u>	<u>168,853</u>
<b>STOCKHOLDERS' EQUITY</b>		
No par common stock, 50,000 shares authorized, 30,000 shares issued and outstanding at September 30, 2008 and 2007	900	900
Additional paid in capital	42,950	42,950
Retained deficit	<u>(55,230)</u>	<u>(66,469)</u>
	<u>(11,380)</u>	<u>(22,619)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<u>\$ 157,835</u>	<u>\$ 203,281</u>

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

NEW HORIZON TECHNOLOGIES, INC.  
 STATEMENTS OF INCOME  
 Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUES		
Contract revenue	\$ 101,285	\$ 181,086
Management service fees	-	4,853
	<u>101,285</u>	<u>185,939</u>
DIRECT COSTS		
Labor and benefits	170	9,694
Equipment and subcontractors	61,220	113,668
Travel and other direct costs	2,573	4,995
Total direct costs	<u>63,963</u>	<u>128,357</u>
Gross profit	<u>37,322</u>	<u>57,582</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>15,811</u>	<u>39,996</u>
Operating income	<u>21,511</u>	<u>17,586</u>
OTHER INCOME (EXPENSE)		
Interest income	3,341	2,908
Interest expense	<u>(10,946)</u>	<u>(17,656)</u>
Total other income (expense)	<u>(7,605)</u>	<u>(14,748)</u>
Net income before income tax	13,906	2,838
(Provision) for income tax	<u>(2,667)</u>	<u>(1,412)</u>
Net income	<u>\$ 11,239</u>	<u>\$ 1,426</u>

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

NEW HORIZON TECHNOLOGIES, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 September 30, 2008 and 2007

	<u>Common Stock</u>	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance , September 30, 2006	\$ 900	\$ 42,950	\$ (67,895)	\$ (24,045)
Net profit	<u>-</u>	<u>-</u>	<u>1,426</u>	<u>1,426</u>
Balance, September 30, 2007	\$ 900	\$ 42,950	\$ (66,469)	\$ (22,619)
Net profit	<u>-</u>	<u>-</u>	<u>11,239</u>	<u>11,239</u>
Balance, September 30, 2008	<u><b>\$ 900</b></u>	<u><b>\$ 42,950</b></u>	<u><b>\$ (55,230)</b></u>	<u><b>\$ (11,380)</b></u>

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

NEW HORIZON TECHNOLOGIES, INC.  
 STATEMENTS OF CASH FLOWS  
 Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 11,239	\$ 1,426
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax asset	2,853	1,312
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	48,796	7,181
Receivables - related party	-	481
Prepaid expenses	333	381
Increase (decrease) in:		
Accounts payable - trade	(26,585)	25,061
Accounts payable - related party	(5,046)	(550)
Accrued expenses	-	(9,246)
Net cash provided by operating activities	<u>31,590</u>	<u>26,046</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(25,054)	(18,348)
Investment in certificates of deposit	<u>(172)</u>	<u>(50,739)</u>
Net cash used in financing activities	<u>(25,226)</u>	<u>(69,087)</u>
Net increase (decrease) in cash and cash equivalents	6,364	(43,041)
Cash and cash equivalents, beginning of year	<u>82,395</u>	<u>125,436</u>
Cash and cash equivalents, end of year	<u>\$ 88,759</u>	<u>\$ 82,395</u>

**SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:**

New Horizon Technologies, Inc. paid interest expense to its parent totaling \$10,946 and \$17,656 for the years ended September 30, 2008 and 2007, respectively.

New Horizon Technologies, Inc. paid income taxes to state taxing authorities totaling \$2,667 and \$1,412 for the years ended September 30, 2008 and 2007, respectively.

NEW HORIZON TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008 and 2007

**NOTE 1. NATURE OF ORGANIZATION**

New Horizon Technologies, Inc., (NHT) was organized on July 22, 1992 as NCAT Development Corporation, under the State of Montana. On June 14, 1995, NCAT Development Corporation filed Articles of Amendment changing the corporate name to New Horizon Technologies, Inc (NHT). At September 30, 2008 and 2007, NHT was a 100% owned for-profit subsidiary of the National Center for Appropriate Technology, Inc. (NCAT) - a §501(c) (3) non-profit corporation.

New Horizon Technologies, Inc. was established as a for-profit subsidiary in order to maximize commercial income opportunities resulting from NCAT experience and expertise. NHT provides administrative, accounting, strategic, technological and research solutions to government agencies, technology innovators and small businesses in addition to developing and implementing sustainable technologies and community-based approaches to assist people in becoming more self-sufficient. NHT offers services to a variety of organizations not related to NCAT's core interest in serving the poor, and provides a source of unencumbered funds for NCAT's use in support of its mission.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting:**

The accompanying financial statements are presented on the accrual basis of accounting.

**Consolidation:**

The financial statements of NHT are consolidated with the parent at the parent's fiscal year-end of September 30, 2008.

**Revenue Recognition:**

Revenue on cost-plus contracts is recognized when the right to bill exists. Current period revenue includes reimbursement of direct and indirect contract costs incurred in full or partial performance of the contract plus the fixed fees related to contract performance. Fixed price contracts in progress are accounted for by the percentage-of-completion method, where applicable. Under this method, revenues are recognized according to the ratio that costs incurred bear to currently estimated total contract costs or as units of production are completed and invoiced.

**Cash and Cash Equivalents:**

For purposes of the statement of cash flows, NHT considers all cash and investments with an original maturity of three months or less to be cash equivalents.

**Income Taxes:**

NHT is a C Corporation subject to federal and state income taxes.

NEW HORIZON TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2008 and 2007

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Sick Leave Policy:**

Employees earn sick leave credits from the first full month of regular employment but must normally complete three (3) months of regular employment before they are eligible to use any accrued credits. Regular full-time employees accumulate sick leave at the rate of nine (9) days per year to a maximum of 480 hours. Sick leave is prorated for all employees with less than a full-time status. Employees are not reimbursed for accumulated sick leave at termination. Sick leave is expensed as it is used.

**Vacation Leave Policy:**

Employees accrue vacation from the date of hire. Vacation is accrued based on years of service and vacation is prorated for employees with less than a full-time status. Full-time employees may accumulate a maximum of 240 hours of vacation time. Vacation hours are paid to terminated employees. Vacation pay is accrued and expensed on a bimonthly basis.

**Accounts Receivable:**

Accounts receivable are stated at their face amounts with an allowance estimated by management for doubtful accounts. NHT does not maintain an allowance since management believes receivables are fully collectible. One-hundred percent (100%) of the receivables are due from one customer. NHT has a variety of credit relationships with its customers and different trade terms are not uncommon.

**Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3. RECEIVABLES**

NHT had no outstanding receivables as of September 30, 2008.

NEW HORIZON TECHNOLOGIES, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 September 30, 2008 and 2007

**NOTE 4. ACCRUED EXPENSES**

Accrued expenses consist of the following:

	<u>2008</u>	<u>2007</u>
Accrued payroll taxes and withholding	\$ <u>50</u>	\$ <u>50</u>

**NOTE 5. RELATED PARTY TRANSACTIONS**

**NCAT**

NHT is a 100% owned subsidiary of the National Center for Appropriate Technology, Inc. (NCAT). NHT incurs related party transactions during the year with NCAT, including contract work and general and administrative support.

Revenues and expenses from the intercompany activities for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Labor reimbursement income from NCAT	\$ -	\$ 4,853
Rental expense	(1,280)	(1,714)
Management services	(4,039)	(10,751)
Other projects	(11,480)	(27,239)
Interest incurred on debt	(10,946)	(17,656)

At September 30, 2008 and 2007 accounts payable to NCAT totaled \$3,423 and \$8,469, respectively.

NHT refinanced a \$350,000 note payable due to its parent, NCAT, effective January 1, 2004. The terms of the refinancing includes monthly principal and interest payments totaling \$3,000 with an interest rate of two points above Chase Manhattan prime, interest updated monthly. On January 1, 2007, the NHT Board of Directors negotiated with NCAT to lower the interest rate from two points above prime to prime. The agreement provides a balloon payment at the end of the refinance period, December 31, 2008. NHT made a lump sum \$100,000 principal payment during 2005.

NEW HORIZON TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2008 and 2007

**NOTE 6. INCOME TAXES**

Income taxes consist of the following components:

	<u>2008</u>	<u>2007</u>
Current tax expense	\$ (186)	\$ 100
Provision (benefit) of operating loss carryforwards	<u>2,853</u>	<u>1,312</u>
Total tax expense	<u>\$ 2,667</u>	<u>\$ 1,412</u>

NHT's total deferred tax assets and the related deferred tax asset valuation allowance at September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating loss carryforward	<u>\$ 16,027</u>	<u>\$ 18,880</u>
Net deferred tax assets	<u>16,027</u>	<u>18,880</u>
Less valuation allowance	<u>-</u>	<u>-</u>
	<u>\$ 16,027</u>	<u>\$ 18,880</u>

A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. The valuation allowance decreased \$0 and \$20,192 during the years ended September 30, 2008 and 2007, respectively.

Net operating loss carryforwards available to offset future income taxes are as follows:

<u>Fiscal Year Incurred</u>	<u>Amount</u>	<u>Expires</u>
1999	\$ 46,222	6/30/2019
2000	\$ 27,467	6/30/2020

NEW HORIZON TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2008 and 2007

**NOTE 7. PENSION PLAN**

NHT and NCAT, its parent company, have a 401(k) Plan for eligible employees. The Plan permits employee salary reductions for employees who have attained age 21 and have completed three months of service. Employer contributions are allowed for employees who have attained age 21 and have completed 12 months of service, which include at least 1,000 hours of service. Employer contributions are at the discretion of the Board of Directors. Effective January 1, 2004, an employee must be employed on December 31 to be eligible for employer contribution.

Total employer contributions for the years ended September 30, 2008 and 2007 were \$-0-.

**NOTE 8. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMER**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. As of September 30, 2008 and 2007 respectively, approximately 0% and 100% of NHT's receivables were from the U.S. Department of Energy. NHT earned \$101,285 and \$178,714 in revenues from the Department of Energy during the years ended September 30, 2008 and 2007, representing approximately 100% and 96% of its total revenues, respectively.

**NOTE 9. LONG-TERM DEBT – RELATED PARTY**

	<u>2008</u>	<u>2007</u>
Note payable to National Center for Appropriate Technology, parent of NHT; bearing interest at the Chase Manhattan New York Prime Rate adjusted on the first day of each month; rate at September 30, 2008 – 8.25%, rate at September 30, 2007 – 8.25%; payments are applied first to accrued interest and then to principal; the entire principal amount shall be repaid on or before December 31, 2008; unsecured	\$ 165,742	\$ 190,796
Less current portion	<u>(29,915)</u>	<u>(21,943)</u>
Total long-term	<u>\$ 135,827</u>	<u>\$ 168,853</u>

NEW HORIZON TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2008 and 2007

**NOTE 10. ROYALTY AGREEMENT**

On September 28, 2005, the Company entered into a Royalty Agreement with New Horizon Technologies Energy Services, LLC (LLC). NHT agreed to authorize the LLC the right to use the name “New Horizon Technologies Energy Services”, the existing Logo, and the EnerTel trademark in consideration of payment of Royalty Fee.

In consideration for the right to use the Name, Logo and Trademark, the LLC shall pay NHT a Royalty Fee equal to two (2%) percent of LLC’s Annual Cash Receipts in excess of \$1,200,000 in a calendar year, provided that the fee shall not exceed \$20,000 in any given year and shall not exceed \$110,000 in the aggregate. The Royalty Fee began with calendar year 2006 and no amounts were paid to the Company on receivable for the years ended September 30, 2008 and September 30, 2007, respectively.