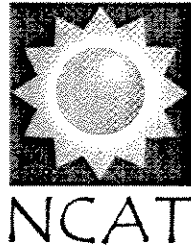


**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**& COMPANY**



National Center  
for Appropriate  
Technology

CONSOLIDATED FINANCIAL REPORT  
September 30, 2006 and 2005

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& COMPANY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
National Center for Appropriate  
Technology, Inc. and Subsidiary  
Butte, Montana 59701

We have audited the accompanying consolidated statements of financial position of the National Center for Appropriate Technology, Inc. (a non-profit corporation) and its Subsidiary as of September 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Center for Appropriate Technology, Inc. and its Subsidiary as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2006 on our consideration of the National Center for Appropriate Technology, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ANDERSON ZURMUEHLEN & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of National Center for Appropriate Technology, Inc. and Subsidiary, taken as a whole. The accompanying schedule of expenditures of federal awards on pages 16 to 18 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

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

Butte, Montana  
November 21, 2006

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
September 30, 2006 and 2005



	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 918,523	\$ 857,826
Restricted cash - refundable deposits	6,713	6,713
Certificates of deposit	250,000	-
Receivables	260,109	333,519
Related party receivable-NHTES, LLC	-	6,223
Prepaid expenses	<u>47,633</u>	<u>21,799</u>
Total current assets	<u>1,482,978</u>	<u>1,226,080</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and building	383,944	383,944
Furniture and equipment	<u>799,613</u>	<u>751,464</u>
	1,183,557	1,135,408
Less accumulated depreciation	<u>(892,539)</u>	<u>(854,217)</u>
	<u>291,018</u>	<u>281,191</u>
<b>OTHER ASSETS</b>		
Deferred tax asset	20,192	30,621
Deposits and other	<u>4,910</u>	<u>11,970</u>
	<u>25,102</u>	<u>42,591</u>
	<u>\$ 1,799,098</u>	<u>\$ 1,549,862</u>

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



	<u>2006</u>	<u>2005</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 69,156	\$ 131,411
Accrued expenses	316,436	285,186
Refundable deposits	6,713	6,713
Deferred income	<u>414,370</u>	<u>160,966</u>
Total current liabilities	<u>806,675</u>	<u>584,276</u>
Total liabilities	<u>806,675</u>	<u>584,276</u>
NET ASSETS		
Unrestricted	<u>992,423</u>	<u>965,586</u>
	<u>\$ 1,799,098</u>	<u>\$ 1,549,862</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended September 30, 2006 and 2005



	<u>2006</u>	<u>2005</u>
UNRESTRICTED REVENUE AND SUPPORT:		
Grants and contracts	\$ 4,252,427	\$ 4,570,714
Interest earned	26,950	13,598
Fundraising	6,593	-
Miscellaneous	<u>6,364</u>	<u>3,815</u>
Total revenues and support	<u>4,292,334</u>	<u>4,588,127</u>
PROGRAM EXPENSES:		
Labor and fringe benefits	2,048,486	2,059,040
Overhead costs	628,183	601,840
Travel and other direct costs	383,753	330,018
Subcontracts and equipment	<u>668,390</u>	<u>964,809</u>
Total program expenses	<u>3,728,812</u>	<u>3,955,707</u>
OTHER INCOME (EXPENSES):		
General and administrative expenses	(520,242)	(522,702)
Fundraising expenses	(16,443)	-
Equity income (loss) in NHTES, L.L.C.	<u>-</u>	<u>(177,890)</u>
	<u>(536,685)</u>	<u>(700,592)</u>
Change in net assets	26,837	(68,172)
Unrestricted net assets, beginning of year	<u>965,586</u>	<u>1,033,758</u>
Unrestricted net assets, end of year	<u>\$ 992,423</u>	<u>\$ 965,586</u>

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



NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended September 30, 2006 and 2005



	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 26,837	\$ (68,172)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	38,322	27,436
Equity loss from NHTES, L.L.C.	-	177,890
Deferred tax asset	10,429	(30,621)
Decrease (increase) in:		
Receivables	79,633	311,423
Prepaid expenses	(25,834)	17,547
Other assets	7,060	(7,495)
Increase (decrease) in:		
Accounts payable	(62,255)	(42,235)
Accrued expenses	31,250	(39,774)
Deferred income	<u>253,404</u>	<u>(246,924)</u>
Net cash provided by operating activities	<u>358,846</u>	<u>99,075</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of telephone system	(48,149)	-
Purchase of certificates of deposit	<u>(250,000)</u>	<u>(42,740)</u>
Net cash used in investing activities	<u>(298,149)</u>	<u>(42,740)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	<u>-</u>	<u>(80,996)</u>
Net cash used in financing activities	<u>-</u>	<u>(80,996)</u>
Net increase (decrease) in cash and cash equivalents	60,697	(24,661)
Cash and cash equivalents - beginning of year	<u>864,539</u>	<u>889,200</u>
Cash and cash equivalents - end of year	<u>\$ 925,236</u>	<u>\$ 864,539</u>

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



AS PRESENTED IN THE STATEMENTS OF FINANCIAL POSITION:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 918,523	\$ 857,826
Restricted cash - refundable deposits	<u>6,713</u>	<u>6,713</u>
	<u>\$ 925,236</u>	<u>\$ 864,539</u>

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Interest expense paid	<u>\$ -</u>	<u>\$ 3,659</u>
Unrelated business income taxes paid	<u>\$ 5,496</u>	<u>\$ 2,800</u>
Income taxes paid by Subsidiary	<u>\$ 150</u>	<u>\$ 866</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2006 and 2005

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NOTE 1. NATURE OF ORGANIZATION

The National Center for Appropriate Technology, Inc. (NCAT) was organized on October 12, 1976, as a nonprofit corporation under the Montana Nonprofit Corporation Act. At September 30, 2006 and 2005, NCAT owned 100% of New Horizon Technologies, Inc. (Subsidiary), a for-profit corporation.

The mission of NCAT and its Subsidiary is to help people by championing small-scale, local, and sustainable solutions to reduce poverty, promote healthy communities, and protect natural resources.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statement Presentation:**

NCAT and Subsidiary hereafter referred to as NCAT, 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. In addition, NCAT presents a statement of cash flows.

All financial transactions have been recorded and reported as unrestricted net assets. The following is a description of the three classes of net assets:

- Unrestricted net assets consist of investments and amounts that are available for use in carrying out the mission of NCAT, and include those expendable resources, which have been designated for special use by NCAT.
- Temporarily restricted net assets represent those amounts, which are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. NCAT does not have any temporarily restricted net assets.
- Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds that mandate that the original principal be invested in perpetuity. NCAT does not have any permanently restricted net assets.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Method of Accounting:**

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

**Principles of Consolidation:**

The consolidated financial statements include the accounts of New Horizon Technologies, Inc., a 100% owned Subsidiary at September 30, 2006 and 2005. The accompanying consolidated financial statements include operating results of the Subsidiary for the year ended September 30, 2006 and 2005. All significant intercompany items have been eliminated in the accompanying consolidated financial statements.

**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. Other contracts in progress are accounted for by the percentage-of-completion method (revenues are recognized according to the ratio that costs incurred bear to currently estimated total contract costs) or by the pay-for-performance method (revenues are recognized in accordance with the performance contract), where applicable.

For the years ended September 30, 2006 and 2005, contracts with the federal government are charged and billed for indirect costs at provisional indirect rates. The amounts of indirect costs charged are adjusted at year-end to reflect actual indirect costs incurred. For contracts with the government, both the provisional and final indirect rates are subject to final approval. For the years ended September 30, 2006 and 2005, contracts with the federal government are charged and billed for indirect costs at approved indirect rates.

Deferred income is a liability account that represents amounts received, but not earned, on contracts in progress at September 30, 2006 and 2005.

**Income Taxes:**

NCAT:

NCAT is generally exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code, except for income taxes associated with unrelated business income. Interest income earned on advances to its Subsidiary and personal property rents are subject to unrelated business income tax. NCAT is not a private foundation as classified by the Internal Revenue Service.

Subsidiary:

New Horizon Technologies, Inc. is a C-Corporation subject to federal and state income taxes.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Cash and Cash Equivalents:**

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

**Contributions:**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Temporarily restricted contributions that are released from restrictions in the same year are classified as unrestricted.

**Accounts Receivable:**

Accounts receivable are stated at their face amounts with an allowance estimated by management for doubtful accounts. The Subsidiary does not maintain an allowance since management believes receivables are fully collectible. Approximately 45% of the receivables are primarily due from the Federal Government. NCAT has a variety of credit relationships with its customers and different trade terms are not uncommon.

**Property and Equipment:**

Property and equipment are stated at cost. Depreciation is provided on property and equipment using the straight-line method with useful lives ranging from three to twenty years. Generally, property and equipment with an acquisition cost greater than \$5,000 are capitalized.

At September 30, 2006 and 2005, NCAT and Subsidiary's total depreciation expense was \$38,322 and \$27,436, respectively. Expenditures for maintenance and repairs are charged to overhead expenses as incurred; major betterments are capitalized.

Contributions of land, buildings and equipment are recorded at the fair market at the date contributed. NCAT's policy is to record all gifts of long-lived assets as unrestricted unless the donor states time or purpose restrictions.

Property and equipment purchased with federal funding is expensed if the grant indicates the title is to be held by the grantor. Such property and equipment used by NCAT is not included in its assets for the years ended September 30, 2006 and 2005. These assets totaled approximately \$199,684 and \$242,157 for the years ended September 30, 2006 and 2005, respectively.

**Refundable Deposits:**

NCAT received donations on behalf of Montana Electric Buyers Co-Op (MEBC), an organization that does not have 501(c)(3) status. NCAT disburses the deposits at the discretion of MEBC and does not have variance power.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Deferred Income:**

Deferred income represents payments received on contracts before the expense is incurred. NCAT recognizes the revenue once the expense is incurred.

**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. CONCENTRATION OF REVENUE BASE

During 2006 and 2005, NCAT derived approximately 74% and 70%, respectively, of its revenue from contracts with various federal governmental agencies. Additionally, 45% and 48% of its accounts receivable relate to contracts with the federal government. A significant variation in the level of this support, if this were to occur, would have a material effect on NCAT's programs and activities.

NOTE 4. RECEIVABLES

Receivables consist of the following:

	<u>2006</u>	<u>2005</u>
Billed receivables	\$ 247,181	\$ 332,484
Other miscellaneous receivables	12,928	1,035
Less allowance for doubtful accounts	-	-
	<u>\$ 260,109</u>	<u>\$ 333,519</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005



NOTE 5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>2006</u>	<u>2005</u>
Accrued payroll taxes and withholding	\$ 3,929	\$ 6,450
Accrued wages	95,074	88,321
Accrued vacation	95,055	86,271
Pension plan	116,532	99,290
Other accruals	5,846	4,854
	<u>\$ 316,436</u>	<u>\$ 285,186</u>

NOTE 6. LONG-TERM DEBT

At September 30, 2006 and 2005, NCAT has an unused line of credit of \$200,000 with a fixed annual interest rate of 8.50%. NCAT did not draw on this line of credit during either fiscal year.

For the years ended September 30, 2006 and 2005, NCAT incurred total interest expense of \$-0- and \$2,777, respectively.

NOTE 7. INCOME TAXES

Income taxes for NCAT and Subsidiary consist of the following components:

	<u>2006</u>	<u>2005</u>
Current tax expense	\$ 150	\$ -
Deferred provision (benefit)	<u>10,429</u>	<u>(30,621)</u>
Total tax provision (benefit)	<u>\$ 10,579</u>	<u>\$ (30,621)</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

NOTE 7. INCOME TAXES (CONTINUED)

NCAT and Subsidiary's total deferred tax liabilities, assets and deferred tax asset valuation allowances at September 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Accrued vacation	\$ 35	\$ 900
Net operating loss carryforward	20,157	60,342
Less valuation allowance	-	(30,621)
	<u>\$ 20,192</u>	<u>\$ 30,621</u>

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. At September 30, 2006 and 2005, the Subsidiary had valuation allowances for its deferred tax assets of \$0- and \$30,621, respectively. The valuation allowance decreased \$30,621 and increased \$3,766 during the years ended September 30, 2006 and 2005, respectively. During 2006, management changed its policy of reserving a valuation allowance of 50%. The valuation allowance is no longer considered necessary due to changes in its operations.

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	\$ 65,207	6/30/2019
2000	\$ 27,467	6/30/2020

NOTE 8. CONTINGENCIES

Concentration of Cash and Cash Equivalents:

As of September 30, 2006 and 2005, NCAT had no significant deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. The Subsidiary had deposits of \$0 and \$6,000 in excess of the FDIC limits for the years ended September 30, 2006 and 2005, respectively.

As of September 30, 2006 and 2005, NCAT had repurchase account balances at First Citizens Bank totaling \$669,659 and \$540,267, respectively. These amounts are not insured by the FDIC, rather, they are protected under a master repurchase agreement in which there is collateral held by a third party.



NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

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NOTE 9. LEASE COMMITMENTS

Facility:

NCAT leases facility space in Missoula, Montana, Fayetteville, Arkansas, Davis, California, and Lewis, Iowa on an annual basis.

NCAT leases facility space in Missoula, Montana with monthly rent expense of \$1,085 per month, effective for one year beginning February 1, 2006; in Fayetteville, Arkansas with monthly rent expense of \$2,800 per month, effective for three years beginning January 1, 2006; in Davis, California with monthly rent expense of \$800 per month, effective month-to-month; and in Lewis, Iowa with monthly rent expense of \$400 per month, effective for three years beginning January 1, 2006. All of the office rental space leases are contingent on continued federal funding.

During the years ended September 30, 2006 and 2005, NCAT's total facility rental expense was \$62,079 and \$66,575 respectively.

Equipment:

NCAT leases equipment under an operating lease, with monthly rental expense amounting to \$1,505. The lease is effective through February 2008, but includes an escape clause if federal funding is terminated.

During the years ended September 30, 2006 and 2005, equipment rental expense was \$34,363 and \$36,382, respectively.

NOTE 10. PROFIT SHARING PLAN

Effective January 1, 1997, NCAT and Subsidiary established a 401(k) Profit Sharing Plan for eligible employees. The Plan permits employee salary reductions for employees who have attained age 21 and have completed 3 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 501 hours of service. Effective January 1, 2004, an employee must be employed on December 31 to be eligible for employer contribution.

The Boards of Directors of NCAT and Subsidiary approve discretionary contributions to the profit sharing plan on a calendar year basis. At September 30, 2006 and 2005 respectively, \$125,938 and \$91,079 of employer contributions were expensed in the accompanying consolidated financial statements.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2006 and 2005

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NOTE 11. KEY EMPLOYEE LIFE INSURANCE

NCAT is the owner and beneficiary of a term life insurance policy on the life of one key employee. The face amount approximates \$333,000. The premium for the policy amounts to \$146 per month. Effective August 31, 2006, one key employee life insurance policy was terminated due to employment changes. The premium for this terminated policy was \$342 per month.

NOTE 12. INDIRECT COST RATES

NCAT's actual allocated cost rates for the fiscal years ended September 30, 2006 and September 30, 2005 are as follows:

<u>Cost Pool</u>	<u>2006</u>	<u>2005</u>
Directly allocated fringe - regular employees	42.00%	40.00%
Directly allocated fringe - temporary employees and interns	0.00%	10.83%
Directly allocated overhead	32.18%	31.87%
Indirect general and administrative (G&A)	10.00%	10.00%

These rates do not include those of the Subsidiary.

NOTE 13. ROYALTY AGREEMENT

On September 28, 2005, the Subsidiary entered into a Royalty Agreement with NHTES, LLC (LLC). The Subsidiary 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 the Subsidiary 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 will begin with calendar year 2006 and no receivable for accrued royalty fees was recorded at September 30, 2006.



SINGLE AUDIT SECTION

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended September 30, 2006



<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Appropriate Technology Transfer for Rural Areas (ATTRA)	10.350	RBS-97-02	\$ 2,535,272
U.S. Department of Health and Human Services LIHEAP Clearinghouse	93.568	1435-04-03-CT-73120	218,245
U.S. Department of Energy Million Solar Roofs	81.118	DE-FG48-02R810730	5,436
U.S. Department of Agriculture Natural Resource Conservation Service (NRCS) Sustainable American Cotton Project	10.912	68-3A75-5-177	19,277
CIG Oilseeds for Fuel, Feed, & Future	10.912	65-0325-06-027	989
Reducing Transition & Compliance Risks for Organic Crop Producers in the South	10.457	04IE08310086	5,653
RMA Managing Farm Energy Risks in Northeast	10.457	06-IE-0831-0110-E	2,252
Record Keeping for Success	10.443	2003-51200-01649	42,902
GIN Control Strategies	10.001	58-6227-6-037	57
Compliance Tools for Organic Ag Producers	10.200	12-25-A-4350	36,350

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Sustainable Agriculture Research and Education,			
passed through Utah State University	10.500	C030225	4,187
passed through Utah State University	10.500	51688013	4,229
passed through Utah State University	10.500	04-1549011	20,025
passed through Utah State University	10.500	C032062	15,942
passed through Utah State University	10.500	04-1549002	31,981
passed through Utah State University	10.500	51688012	1,085
passed through Utah State University	10.200	03-1535042	7,382
passed through Utah State University	10.200	01-4199003	4,940
passed through University of Georgia	10.200	RE675-108/5814277	26,400
passed through University of Georgia	10.200	RD309-040/3581487	10,910
passed through University of Arkansas	10.303	UA AES 90809-02	<u>537</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,994,051</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
AND SUBSIDIARY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
September 30, 2006

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NOTE A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of NCAT and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

NOTE B. PROGRAM INCOME

Program income in the amount of \$127,080 is included in the ATTRA federal expenditures (CFDA #10.350).



& COMPANY

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
National Center for Appropriate  
Technology, Inc.  
Butte, MT 59701

We have audited the consolidated financial statements of the National Center for Appropriate Technology, Inc. and Subsidiary as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated November 21, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Center for Appropriate Technology, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the National Center for Appropriate Technology, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was

ANDERSON ZURMUEHLEN & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson Zur Muehlen & Co., P.C.*

Butte, Montana  
November 21, 2006





& COMPANY

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
National Center for Appropriate  
Technology, Inc.  
Butte, MT 59701

Compliance

We have audited the compliance of the National Center for Appropriate Technology, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2006. The National Center for Appropriate Technology, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the National Center for Appropriate Technology, Inc.'s management. Our responsibility is to express an opinion on the National Center for Appropriate Technology, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the National Center for Appropriate Technology, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the National Center for Appropriate Technology, Inc.'s compliance with those requirements.

In our opinion the National Center for Appropriate Technology, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the National Center for Appropriate Technology, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered National Center for Appropriate Technology, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Butte, Montana  
November 21, 2006

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended September 30, 2006



**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements.
2. No reportable conditions related to the audit of NCAT are reported in the report on compliance and other matters and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of NCAT were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards program are reported in the report on compliance with requirements applicable to its major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal awards program expresses an unqualified opinion.
6. The audit did not disclose any audit findings, which the auditor is required to report under OMB Circular A-133.
7. The major program is Appropriate Technology Transfer for Rural Areas (ATTRA) through the U.S. Department of Agriculture. The CFDA number assigned to this program is 10.350.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. NCAT was determined to be a low-risk auditee for the year ended September 30, 2006.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None reported.

**FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None reported.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended September 30, 2006



There were no findings, reportable conditions, or questioned costs for the year ended September 30, 2005.