



CONSOLIDATED FINANCIAL REPORT

September 30, 2005 and 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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.

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 17 to 19 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.

Butte, Montana
November 21, 2005

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 857,826	\$ 882,487
Restricted cash - refundable deposits	6,713	6,713
Receivables (net of allowance for doubtful accounts of \$0 and \$0)	333,519	629,523
Related party receivable-NHTES, LLC	6,223	21,642
Prepaid expenses	<u>21,799</u>	<u>39,346</u>
Total current assets	<u>1,226,080</u>	<u>1,579,711</u>
PROPERTY AND EQUIPMENT		
Land and building	383,944	383,944
Furniture and equipment	<u>751,464</u>	<u>708,724</u>
	1,135,408	1,092,668
Less accumulated depreciation	<u>(854,217)</u>	<u>(826,781)</u>
	<u>281,191</u>	<u>265,887</u>
OTHER ASSETS		
Investment in NHTES, L.L.C.	-	177,890
Deferred tax asset	30,621	-
Deposits and other	<u>11,970</u>	<u>4,475</u>
	<u>42,591</u>	<u>182,365</u>
	<u>\$ 1,549,862</u>	<u>\$ 2,027,963</u>

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

	<u>2005</u>	<u>2004</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ -	\$ 19,514
Accounts payable	131,411	173,646
Accrued expenses	285,186	324,960
Refundable deposits	6,713	6,713
Deferred income	<u>160,966</u>	<u>407,890</u>
Total current liabilities	<u>584,276</u>	<u>932,723</u>
LONG-TERM DEBT		
Notes payable	<u>-</u>	<u>61,482</u>
Total long-term liabilities	<u>-</u>	<u>61,482</u>
Total liabilities	<u>584,276</u>	<u>994,205</u>
NET ASSETS		
Unrestricted	<u>965,586</u>	<u>1,033,758</u>
	<u>\$ 1,549,862</u>	<u>\$ 2,027,963</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
UNRESTRICTED REVENUE AND SUPPORT:		
Grants and contracts	\$ 4,570,714	\$ 5,311,308
Interest earned	13,598	8,527
Miscellaneous	<u>3,815</u>	<u>201</u>
Total revenues and support	<u>4,588,127</u>	<u>5,320,036</u>
PROGRAM EXPENSES:		
Labor and fringe benefits	2,059,040	2,208,788
Overhead costs	601,840	679,362
Travel and other direct costs	330,018	327,499
Subcontracts and equipment	<u>964,809</u>	<u>1,388,714</u>
Total program expenses	<u>3,955,707</u>	<u>4,604,363</u>
OTHER INCOME (EXPENSES):		
General and administrative expenses	(522,702)	(621,348)
Equity income (loss) in NHTES, L.L.C.	<u>(177,890)</u>	<u>(30,353)</u>
	<u>(700,592)</u>	<u>(651,701)</u>
Change in net assets	(68,172)	63,972
Unrestricted net assets, beginning of year	<u>1,033,758</u>	<u>969,786</u>
Unrestricted net assets, end of year	<u>\$ 965,586</u>	<u>\$ 1,033,758</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (68,172)	\$ 63,972
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	27,436	28,507
Equity loss from NHTES, L.L.C.	177,890	30,353
Deferred tax asset	(30,621)	-
Decrease (increase) in:		
Receivables	311,423	(124,450)
Prepaid expenses	17,547	15,302
Other assets	(7,495)	(3,740)
Increase (decrease) in:		
Accounts payable	(42,235)	(1,390)
Accrued expenses	(39,774)	14,758
Refundable deposits	-	(429)
Deferred income	(246,924)	(82,541)
Net cash provided by (used in) operating activities	<u>99,075</u>	<u>(59,658)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	<u>(42,740)</u>	<u>(7,129)</u>
Net cash used in investing activities	<u>(42,740)</u>	<u>(7,129)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	<u>(80,996)</u>	<u>(19,071)</u>
Net cash used in financing activities	<u>(80,996)</u>	<u>(19,071)</u>
Net increase (decrease) in cash and cash equivalents	(24,661)	(85,858)
Cash and cash equivalents - beginning of year	<u>889,200</u>	<u>975,058</u>
Cash and cash equivalents - end of year	<u>\$ 864,539</u>	<u>\$ 889,200</u>

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

AS PRESENTED IN THE STATEMENTS OF FINANCIAL POSITION:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 857,826	\$ 882,487
Restricted cash - refundable deposits	<u>6,713</u>	<u>6,713</u>
	<u>\$ 864,539</u>	<u>\$ 889,200</u>

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Interest expense paid	<u>\$ 3,659</u>	<u>\$ 5,043</u>
Unrelated business income taxes paid	<u>\$ 2,800</u>	<u>\$ 2,723</u>
Income taxes paid by Subsidiary	<u>\$ 866</u>	<u>\$ 897</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005 and 2004

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, 2004, NCAT owned a 90% share in New Horizon Technologies, Inc. (Subsidiary), a for-profit corporation. Effective September 30, 2005, the Subsidiary (NHT, Inc.) entered into a transaction with its affiliate, NHTES, LLC and its minority stockholder, whereby the minority stockholder of NHT, Inc. traded his ownership interest in NHT, Inc. in exchange for the Subsidiary's membership interest in NHTES, LLC. The result of this transaction is that, at September 30, 2005, NCAT owns 100% of the Subsidiary and the Subsidiary no longer owns a membership interest in NHTES, LLC.

The purpose 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, 2005 and 2004

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, 2005 and 90% owned subsidiary as of September 30, 2004. The accompanying consolidated financial statements include operating results of the Subsidiary for the year ended September 30, 2005 and 2004. 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, where applicable. Under this method, revenues are recognized according to the ratio that costs incurred bear to currently estimated total contract costs.

For the years ended September 30, 2005 and 2004, 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, 2005 and 2004, contracts with the federal government are charged and billed for indirect costs at fixed indirect rates. The difference between the fixed indirect rate and actual costs will be an adjustment in subsequent negotiations of fixed rates. Management is of the opinion that any federal adjustments to the indirect cost rates used to allocate costs to specific contracts as reflected herein, will be approved and any differences will be immaterial.

Deferred income is a liability account that represents amounts received, but not earned, on contracts in progress at September 30, 2005 and 2004.

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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 half 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, 2005 and 2004, NCAT and Subsidiary's total depreciation expense was \$27,436 and \$28,507, 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, 2005 and 2004. These assets totaled approximately \$242,157 and \$329,514 for the years ended September 30, 2005 and 2004, respectively.

Investments:

The Subsidiary's investment in NHTES, LLC is accounted for using the equity method. Under the equity method, the original investment is recorded at cost and periodically adjusted for income, losses, and distributions from the joint venture, but not below \$-0-, at which point the equity method is suspended. Effective September 30, 2005, the subsidiary no longer has an ownership interest in NHTES, LLC.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2005 and 2004, NCAT derived approximately 70% and 69%, respectively, of its revenue from contracts with various federal governmental agencies. Additionally, 48% and 32% 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 affect on NCAT's programs and activities.

NOTE 4. RECEIVABLES

Receivables consist of the following:

	<u>2005</u>	<u>2004</u>
Billed receivables	\$ 332,484	\$ 626,564
Other miscellaneous receivables	1,035	2,959
Less allowance for doubtful accounts	-	-
	<u>\$ 333,519</u>	<u>\$ 629,523</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>2005</u>	<u>2004</u>
Accrued payroll taxes and withholding	\$ 6,450	\$ -
Accrued wages	88,321	94,245
Accrued vacation	86,271	98,060
Pension plan	99,290	129,225
Other accruals	4,854	3,430
	<u>\$ 285,186</u>	<u>\$ 324,960</u>

NOTE 6. LONG-TERM DEBT

	<u>2005</u>	<u>2004</u>
Note payable to First Citizens Bank of Butte; interest stated at 6.25%; due in monthly installments, including principal and interest of \$1,947 through September 15, 2008; secured by real property and right of setoff with cash deposits held by lender	\$ -	\$ 80,996
	-	80,996
Less current maturities	-	(19,514)
	<u>\$ -</u>	<u>\$ 61,482</u>

During fiscal year 2005, the company paid the long-term note balance of \$80,996 in full.

At September 30, 2005 and 2004, NCAT has an unused line of credit of \$200,000 with a fixed annual interest rate of 6.50%. NCAT did not draw on this line of credit during either fiscal year.

For the years ended September 30, 2005 and 2004, NCAT incurred total interest expense of \$2,777 and \$5,043, respectively.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 7. 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.

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

	<u>2005</u>	<u>2004</u>
Current tax expense	\$ -	\$ 3,991
Deferred provision (benefit)	<u>(30,621)</u>	<u>-</u>
Total tax provision	<u>\$ (30,621)</u>	<u>\$ 3,991</u>

NCAT and Subsidiary's total deferred tax liabilities, assets and deferred tax asset valuation allowances at September 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Accrued vacation	\$ 900	\$ 1,223
Net operating loss carryforward	60,342	25,632
Less valuation allowance	<u>(30,621)</u>	<u>(26,855)</u>
	<u>\$ 30,621</u>	<u>\$ -</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, 2005 and 2004, the Subsidiary had valuation allowances for its deferred tax assets of \$30,621 and \$26,855, respectively. The valuation allowance increased \$3,766 and decreased \$11,639 during the years ended September 30, 2005 and 2004.

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	\$ 90,380	6/30/2019
2000	\$ 27,467	6/30/2020
2005 estimate	\$ 64,847	9/30/2025

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 8. CONTINGENCIES

Concentration of Cash and Cash Equivalents:

As of September 30, 2005 and 2004, NCAT had no significant deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. The Subsidiary had deposits of \$0 and \$18,660 in excess of the FDIC limits for the years ended September 30, 2005 and 2004, respectively.

NOTE 9. LEASE COMMITMENTS

Facility:

NCAT leases facility space in Fayetteville, Arkansas on a month-to-month basis.

NCAT leases facility space in Missoula, Montana with monthly rent expense of \$730 per month, effective for one year beginning January 1, 2005.

NCAT's total facility rental expense was \$66,575 and \$77,433, 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, 2005 and 2004, equipment rental expense was \$36,382 and \$39,661, 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, 2005 and 2004, \$91,079 and \$129,225 of employer contribution, respectively, had been expensed in the accompanying consolidated financial statements.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 11. INDIRECT COST RATES

NCAT's actual indirect cost rates for the fiscal years ended September 30, 2005 and September 30, 2004 are as follows:

<u>Cost Pool</u>	<u>2005</u>	<u>2004</u>
Fringe - regular employees	40.00%	40.00%
Fringe - temporary employees and interns	10.83%	10.02%
General overhead	31.87%	33.02%
General and Administrative (G&A)	10.00%	9.48%

These rates do not include those of the Subsidiary.

NOTE 12. KEY EMPLOYEE LIFE INSURANCE

NCAT is the owner and beneficiary of term life insurance policies on the lives of two key employees. The face amount approximates \$333,000 for each employee. Premiums for both policies amount to \$390 per month.

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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2005 and 2004

NOTE 14. INVESTMENT IN NEW HORIZON TECHNOLOGIES ENERGY SERVICES, LLC

On January 1, 1999, the Subsidiary formed a limited liability company (NHTES, LLC) for the purpose of developing and implementing energy metering and systems integration. The Subsidiary was initially a 75% member interest in the NHTES, LLC (LLC).

On September 30, 2005, the Subsidiary sold its 75% ownership in the LLC to the managing member in exchange for his minority interest of 10% in the Subsidiary.

Condensed unaudited balance sheets and statements of loss as of and for the years ended September 30, 2005 and 2004, for NHTES, LLC are presented below:

	<u>2005</u>	<u>2004</u>
Total assets	\$ <u>169,303</u>	\$ <u>417,952</u>
Total liabilities	\$ 93,809	\$ 181,471
Members' equity	<u>75,494</u>	236,481
Total liabilities and equity	<u>\$ 169,303</u>	<u>\$ 417,952</u>
Revenue	\$ 736,474	\$ 874,266
Operating expenses	<u>893,895</u>	<u>908,942</u>
Operating loss	(157,421)	(34,676)
Other expense	<u>(3,565)</u>	<u>(5,795)</u>
Net loss	<u>\$ (160,986)</u>	<u>\$ (40,471)</u>

SINGLE AUDIT SECTION

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2005

<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	\$ 2,343,589
U.S. Department of Health and Human Services LIHEAP Clearinghouse	93.568	1435-04-03-CT-73120	202,465
U.S. Department of Energy Million Solar Roofs	81.118	DE-FG48-02R810730	39,344
Passed through Montana Department of Environmental Quality CESD Website	81.117	203045-2/203045-3	40,613
U.S. Department of Agriculture Natural Resource Conservation Service (NRCS) Nat'l Irrigators Pocket Guide	10.902	67-0325-04-20	15,601
Record Keeping for Success	10.443	2003-51200-01649	53,826
Reducing Transition & Compliance Risks for Organic Crop Producers in the South	10.457	04IE08310086	143,141
Compliance Tools for Organic Ag Producers	10.xxx	12-25-A-4350	4,115

<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	C030224	919
passed through Utah State University	10.500	51688013	1,539
passed through Utah State University	10.500	04-1549011	6,458
passed through Utah State University	10.500	C032062	7,235
passed through Utah State University	10.200	C028186	2,773
passed through Utah State University	10.200	01-4199003	6,880
passed through Utah State University	10.200	C031694	20,905
passed thru University of Georgia	10.200	RE675-108/5814277	15,516
passed thru University of Georgia	10.500	RE675-110/7877627	52,944
passed thru University of Georgia	10.200	RD309-040/3581487	23,129
passed thru University of Arkansas	10.303	UA AES 90809-02	<u>395</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,981,387</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2005

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 \$138,304 is included in the ATTRA federal expenditures (CFDA #10.350).

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, 2005 and 2004, and have issued our report thereon dated November 21, 2005. 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

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.

Butte, Montana
November 21, 2005

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, 2005. 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, 2005.

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.

Butte, Montana
November 21, 2005

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2005

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, 2005.

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, 2005

There were no findings, reportable conditions, or questioned costs for the year ended September 30, 2004.