



CONSOLIDATED FINANCIAL REPORT

September 30, 2004 and 2003

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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, 2004 and 2003, 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, 2004 and 2003, 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 22, 2004 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, regulations, contracts and grant 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 the 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 18 to 20 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 22, 2004

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 882,487	\$ 967,916
Restricted cash - refundable deposits	6,713	7,142
Receivables	629,523	522,127
Related party receivable-NHTES, LLC	21,642	4,588
Prepaid expenses	<u>39,346</u>	<u>54,648</u>
Total current assets	<u>1,579,711</u>	<u>1,556,421</u>
PROPERTY AND EQUIPMENT		
Land and building	383,944	383,944
Furniture and equipment	<u>708,724</u>	<u>702,125</u>
	1,092,668	1,086,069
Less accumulated depreciation	<u>(826,781)</u>	<u>(798,274)</u>
	<u>265,887</u>	<u>287,795</u>
OTHER ASSETS		
Investment in New Horizon Technologies Energy Services, L.L.C.	177,890	207,713
Deposits and other	<u>4,475</u>	<u>735</u>
	<u>182,365</u>	<u>208,448</u>
	<u>\$ 2,027,963</u>	<u>\$ 2,052,664</u>

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

	<u>2004</u>	<u>2003</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 19,514	\$ 13,107
Accounts payable	173,646	175,036
Accrued expenses	324,960	304,902
Income taxes payable	-	5,300
Refundable deposits	6,713	7,142
Deferred income	<u>407,890</u>	<u>490,431</u>
Total current liabilities	<u>932,723</u>	<u>995,918</u>
 LONG-TERM DEBT		
Notes payable	<u>61,482</u>	<u>86,960</u>
Total long-term liabilities	<u>61,482</u>	<u>86,960</u>
 Total liabilities		
	<u>994,205</u>	<u>1,082,878</u>
 NET ASSETS		
Unrestricted	<u>1,033,758</u>	<u>969,786</u>
	<u>\$ 2,027,963</u>	<u>\$ 2,052,664</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
UNRESTRICTED REVENUE AND SUPPORT:		
Grants and contracts	\$ 5,311,308	\$ 5,140,055
Contributions	-	2,641
Interest earned	8,527	6,247
Miscellaneous	<u>201</u>	<u>10,005</u>
Total revenues and support	<u>5,320,036</u>	<u>5,158,948</u>
PROGRAM EXPENSES:		
Labor and fringe benefits	2,208,788	2,148,065
Overhead costs	679,362	658,260
Travel and other direct costs	327,499	351,932
Subcontracts and equipment	<u>1,388,714</u>	<u>1,308,590</u>
Total program expenses	<u>4,604,363</u>	<u>4,466,847</u>
OTHER INCOME (EXPENSES):		
Equity income (loss) in NHTES, L.L.C.	(30,353)	(40,603)
General and administrative expenses	<u>(621,348)</u>	<u>(575,765)</u>
	<u>(651,701)</u>	<u>(616,368)</u>
Change in net assets	63,972	75,733
Unrestricted net assets, beginning of year	<u>969,786</u>	<u>894,053</u>
Unrestricted net assets, end of year	<u>\$ 1,033,758</u>	<u>\$ 969,786</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 63,972	\$ 75,733
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	28,507	35,466
Equity loss from NHTES, L.L.C.	30,353	40,603
Decrease (increase) in:		
Receivables	(124,450)	421,287
Prepaid expenses	15,302	(5,874)
Other assets	(3,740)	(254)
Increase (decrease) in:		
Accounts payable	(1,390)	(70,339)
Accrued expenses	14,758	(6,870)
Refundable deposits	(429)	(5,394)
Deferred income	(82,541)	102,490
Net cash provided by (used in) operating activities	<u>(59,658)</u>	<u>586,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	<u>(7,129)</u>	-
Net cash used in investing activities	<u>(7,129)</u>	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	<u>(19,071)</u>	(21,192)
Net cash used in financing activities	<u>(19,071)</u>	(21,192)
Net increase in cash and cash equivalents	(85,858)	565,656
Cash and cash equivalents - beginning of year	<u>975,058</u>	<u>409,402</u>
Cash and cash equivalents - end of year	<u>\$ 889,200</u>	<u>\$ 975,058</u>

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

AS PRESENTED IN THE STATEMENTS OF FINANCIAL POSITION:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 882,487	\$ 967,916
Restricted cash - refundable deposits	<u>6,713</u>	<u>7,142</u>
	<u>\$ 889,200</u>	<u>\$ 975,058</u>

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Interest expense paid	<u>\$ 5,043</u>	<u>\$ 6,218</u>
Unrelated business income taxes paid by NCAT	<u>\$ 2,723</u>	<u>\$ 3,200</u>
Income taxes paid by Subsidiary	<u>\$ 897</u>	<u>\$ 1,037</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004 and 2003

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. NCAT has a 90% share in New Horizon Technologies, Inc. (Subsidiary), a for-profit corporation.

The purpose of NCAT and its Subsidiary is to champion sustainable technologies and community based approaches that protect natural resources and assist people, especially the economically disadvantaged, in becoming more self reliant.

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 otherwise unrestricted 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, 2004 and 2003

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 90% owned Subsidiary. The accompanying consolidated financial statements include operating results of the Subsidiary for the years ended September 30, 2004 and 2003. 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 year ended September 30, 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 year ended September 30, 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.

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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable:

Accounts receivable are stated at face value. NCAT maintains an allowance for doubtful accounts, based on management's estimate of collectibility as of year-end. The Subsidiary does not maintain an allowance since management believes receivables are fully collectible.

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, 2004 and 2003, NCAT and Subsidiary's total depreciation expense was \$28,507 and \$35,466, 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, 2004 and 2003. These assets totaled approximately \$378,692 and \$330,428 for the years ended September 30, 2004 and 2003, 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.

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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2004 and 2003, NCAT derived approximately 69% and 70%, respectively, of its revenue from contracts with various federal governmental agencies. Additionally, 32% and 91% 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>2004</u>	<u>2003</u>
Billed receivables	\$ 626,564	\$ 520,635
Employee - related receivables	-	251
Other miscellaneous receivables	2,959	1,241
Less allowance for doubtful accounts	-	-
	<u>\$ 629,523</u>	<u>\$ 522,127</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

NOTE 5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>2004</u>	<u>2003</u>
Accrued payroll taxes and withholding	\$ -	\$ 6,674
Accrued wages	94,245	95,440
Accrued vacation	98,060	100,171
Pension plan	129,225	97,728
Other accruals	3,430	4,889
	<u>\$ 324,960</u>	<u>\$ 304,902</u>

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2004</u>	<u>2003</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	<u>80,996</u>	<u>100,067</u>
	80,996	100,067
Less current maturities	<u>(19,514)</u>	<u>(13,107)</u>
	<u>\$ 61,482</u>	<u>\$ 86,960</u>

Scheduled maturities of the long-term debt obligation are as follows:

<u>Year Ending</u>	<u>Amount</u>
2005	\$ 19,514
2006	20,641
2007	21,751
2008	19,090
	<u>\$ 80,996</u>

At September 30, 2004 and 2003, NCAT had 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, 2004 and 2003, NCAT incurred total interest expense of \$5,043 and \$6,218, respectively.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

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>2004</u>	<u>2003</u>
Current tax expense	\$ 3,991	\$ 4,237
Deferred provision	<u>-</u>	<u>-</u>
Total tax provision	<u>\$ 3,991</u>	<u>\$ 4,237</u>

NCAT and Subsidiary's total deferred tax liabilities, assets and deferred tax asset valuation allowances at September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Accrued vacation	\$ 1,223	\$ 1,069
Net operating loss carryforward	25,632	37,425
Less valuation allowance	<u>(26,855)</u>	<u>(38,494)</u>
	<u>\$ -</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, 2004 and 2003, the Subsidiary had valuation allowances for its deferred tax assets of \$26,855 and \$38,494, respectively. The valuation allowance decreased \$11,639 and \$16 during the years ended September 30, 2004 and 2003, respectively, primarily due to the changes in income and the suspended loss reported prior to the redemption of one of the L.L.C. members in the prior year.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

NOTE 7. INCOME TAXES (CONTINUED)

Net operating losses available for the Subsidiary are:

<u>Fiscal Year Incurred</u>	<u>Amount</u>	<u>Expires</u>
1999	\$ 90,380	6/30/2019
2000	\$ 27,467	6/30/2020

NOTE 8. CONTINGENCY

Concentration of Cash and Cash Equivalents:

As of September 30, 2004 and 2003, NCAT had no significant deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. The Subsidiary had \$18,660 and \$44,677 in excess of the FDIC limits for the years ended September 30, 2004 and 2003, 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 August 1, 2004.

NCAT's total facility rental expense was \$77,433 and \$82,438 for the years ended September 30, 2004 and 2003, respectively.

Equipment:

NCAT leases equipment under an operating lease, with monthly rental expense amounting to \$1,246. The lease is effective through February 2008, but includes an escape clause if federal funding is terminated.

During the years ended September 30, 2004 and 2003, equipment rental expense was \$39,661 and \$34,805, respectively.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

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 Board of Directors of NCAT and Subsidiary approve discretionary contributions to the profit sharing plan on a calendar year basis. At September 30, 2004 and 2003, \$129,225 and \$110,882 of employer contribution, respectively, had been expensed in the accompanying consolidated financial statements.

NOTE 11. INDIRECT COST RATES

NCAT's actual allocated cost rates for the fiscal years ended September 30, 2004 and September 30, 2003 are as follows:

<u>Cost Pool</u>	<u>2004</u>	<u>2003</u>
Directly allocated fringe - regular employees	40.00%	40.00%
Directly allocated fringe - temporary employees and interns	10.02%	9.51%
Directly allocated general overhead	33.02%	32.86%
Indirect general and administrative (G&A)	9.48%	9.43%

These rates do not include those of the Subsidiary.

NOTE 12. KEY PERSON 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 \$380 per month.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004 and 2003

NOTE 13. 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 has a 75% member interest in the LLC.

The investment is reflected in the accompanying consolidated statement of financial position using the equity method of accounting.

Condensed unaudited balance sheets and the unaudited statements of loss as of and for the years ended September 30, 2004 and 2003, for NHTES, LLC are presented below:

	<u>2004</u>	<u>2003</u>
Total assets	<u>\$ 417,952</u>	<u>\$ 352,726</u>
Total liabilities	<u>\$ 181,471</u>	<u>\$ 75,776</u>
Members' equity	<u>236,481</u>	<u>276,950</u>
Total liabilities and equity	<u>\$ 417,952</u>	<u>\$ 352,726</u>
Revenue	<u>\$ 874,266</u>	<u>\$ 878,504</u>
Operating expenses	<u>908,942</u>	<u>933,810</u>
Operating income (loss)	<u>(34,676)</u>	<u>(55,306)</u>
Other income (expense)	<u>(5,795)</u>	<u>1,168</u>
Net income (loss)	<u>\$ (40,471)</u>	<u>\$ (54,138)</u>

SINGLE AUDIT SECTION

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2004

<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	\$ 2,592,471
U.S. Department of Health and Human Services LIHEAP Clearinghouse Restructuring	93.568 93.647	1435-04-03-CT-73120 90XP0030/01	198,295 10,592
U.S. Department of Energy Million Solar Roofs	81.118	DE-FG48-02R810713	18,541
Passed through Montana Department of Environmental Quality CESD Website	81.117	203045-2/203045-3	106,945
Wind Energy Development	81.119	203047	3,275
Small Scale Wind Developemnt	81.119	203044	22,935
U.S. Department of Housing and Urban Development (HUD) Utilities Management Clearinghouse	14.850	K-PIH99117	168,277
U.S. Environmental Protection Agency Energy Star - Resnet	66.708	3X-0297-NASA	6,388
Passed through Montana Department of Environmental Quality Watershed Irrigation Efficiency	66.460	DEQ 202087	18,178

<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			
Natural Resource Conservation Service			
(NRCS) Nat'l Irrigators Pocket Guide	10.902	67-0325-04-20	9,808
Forest Service - Building Better Rural Places	10.664	03-DG-11111169-079	2,259
Record Keeping for Success	10.443	2003-51200-01649	19,096
Sustainable Agriculture Research and Education,			
passed through Utah State University	10.200	C030225	7,536
passed through Utah State University	10.500	C030224	44,896
passed through University of Georgia	10.200	RE675-108/5814277	111,428
passed through University of Georgia	10.500	RE675-110/7877627	833
Organic Checksheet	10.200	20023864011973	10,424
WSARE - Farmer Rancher Grant			
passed through Utah State University	10.200		<u>625</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,352,802</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2004 and 2003

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 consolidated financial statements.

NOTE B. PROGRAM INCOME

Program income in the amount of \$178,266 is included in the ATTRA federal expenditures (CFDA #10.350).

INDEPENDENT AUDITOR'S 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, 2004 and 2003, and have issued our report thereon dated November 22, 2004. 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 reportable 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 caused by error or fraud 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 considered 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 and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 non-compliance 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 22, 2004

INDEPENDENT AUDITOR'S 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, 2004. 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, 2004.

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 reportable 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 caused by error or fraud 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 22, 2004

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2004

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 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 for NCAT expresses an unqualified opinion on the major program.
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 Types A and B programs was \$300,000.
9. NCAT was determined to be a low-risk auditee.

FINDINGS AND REPORTABLE CONDITIONS – FINANCIAL STATEMENTS AUDIT

None reported.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None reported.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2004

There were no findings, reportable conditions, or questioned costs for the year ended September 30, 2003.