

NCAT

National Center
for Appropriate
Technology

CONSOLIDATED FINANCIAL REPORT
September 30, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 January 2, 2008 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 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.

Anderson Zur Muehlen & Co., P.C.

Butte, Montana
January 2, 2008

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006



<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 997,490	\$ 918,523
Restricted cash - refundable deposits	6,463	6,713
Certificates of deposit	434,567	250,000
Receivables	369,944	260,109
Prepaid expenses	<u>97,913</u>	<u>47,633</u>
Total current assets	<u>1,906,377</u>	<u>1,482,978</u>
PROPERTY AND EQUIPMENT		
Land and building	391,676	383,944
Furniture and equipment	<u>795,222</u>	<u>799,613</u>
	1,186,898	1,183,557
Less accumulated depreciation	<u>(932,575)</u>	<u>(892,539)</u>
	<u>254,323</u>	<u>291,018</u>
OTHER ASSETS		
Deferred tax asset	18,880	20,192
Deposits and other	<u>3,827</u>	<u>4,910</u>
	<u>22,707</u>	<u>25,102</u>
	<u>\$ 2,183,407</u>	<u>\$ 1,799,098</u>



	<u>2007</u>	<u>2006</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 198,922	\$ 69,156
Accrued expenses	223,137	316,436
Refundable deposits	6,463	6,713
Deferred income	<u>555,913</u>	<u>414,370</u>
Total current liabilities	<u>984,435</u>	<u>806,675</u>
Total liabilities	<u>984,435</u>	<u>806,675</u>
NET ASSETS		
Unrestricted	<u>1,198,972</u>	<u>992,423</u>
	<u>\$ 2,183,407</u>	<u>\$ 1,799,098</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
UNRESTRICTED REVENUE AND SUPPORT:		
Grants and contracts	\$ 3,807,003	\$ 4,252,427
Interest earned	43,748	26,950
Fundraising	4,939	6,593
Miscellaneous	<u>7,575</u>	<u>6,364</u>
Total revenues and support	<u>3,863,265</u>	<u>4,292,334</u>
PROGRAM EXPENSES:		
Labor and fringe benefits	1,768,399	2,048,486
Overhead costs	585,947	628,183
Travel and other direct costs	308,951	383,753
Subcontracts and equipment	<u>594,130</u>	<u>668,390</u>
Total program expenses	<u>3,257,427</u>	<u>3,728,812</u>
OTHER INCOME (EXPENSE):		
General and administrative expenses	(398,955)	(520,242)
Fundraising expenses	<u>(334)</u>	<u>(16,443)</u>
Total other income (expense)	<u>(399,289)</u>	<u>(536,685)</u>
Change in net assets	206,549	26,837
Unrestricted net assets, beginning of year	<u>992,423</u>	<u>965,586</u>
Unrestricted net assets, end of year	<u>\$ 1,198,972</u>	<u>\$ 992,423</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 206,549	\$ 26,837
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	40,036	38,322
Deferred tax asset	1,312	10,429
Decrease (increase) in:		
Receivables	(109,835)	79,633
Prepaid expenses	(50,280)	(25,834)
Other assets	1,083	7,060
Increase (decrease) in:		
Accounts payable	129,517	(62,255)
Accrued expenses	(93,299)	31,250
Deferred income	141,543	253,404
Net cash provided by operating activities	<u>266,626</u>	<u>358,846</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office fixtures	(7,733)	(48,149)
Sale of used telephone equipment	4,391	-
Purchase of certificates of deposit	(184,567)	(250,000)
Net cash used in investing activities	<u>(187,909)</u>	<u>(298,149)</u>
Net increase in cash and cash equivalents	78,717	60,697
Cash and cash equivalents - beginning of year	<u>925,236</u>	<u>864,539</u>
Cash and cash equivalents - end of year	<u>\$ 1,003,953</u>	<u>\$ 925,236</u>

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




AS PRESENTED IN THE STATEMENTS OF FINANCIAL POSITION:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 997,490	\$ 918,523
Restricted cash - refundable deposits	<u>6,463</u>	<u>6,713</u>
	<u>\$ 1,003,953</u>	<u>\$ 925,236</u>

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Unrelated business income taxes paid	<u>\$ 1,515</u>	<u>\$ 5,496</u>
Income taxes paid by Subsidiary	<u>\$ 100</u>	<u>\$ 150</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007 and 2006



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, 2007 and 2006, 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, 2007 and 2006

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, 2007 and 2006. The accompanying consolidated financial statements include operating results of the Subsidiary for the years ended September 30, 2007 and 2006. 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. 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, 2007 and 2006, contracts with the federal government are charged and billed for indirect costs at provisional indirect rates. Some projects are adjusted at year-end to reflect actual indirect costs incurred. For the years ended September 30, 2007 and 2006, contracts with the federal government are charged and billed for indirect costs at government approved indirect rates.

Deferred income is a liability account that represents amounts received, but not earned, on contracts in progress at September 30, 2007 and 2006.

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, 2007 and 2006

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 40% 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.


Sick Leave Policy:

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

Vacation Leave Policy:

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

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006



NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At September 30, 2007 and 2006, NCAT and Subsidiary's total depreciation expense was \$40,036 and \$38,322, 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, 2007 and 2006. These assets totaled approximately \$182,699 and \$199,684 for the years ended September 30, 2007 and 2006, 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.

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 2007 and 2006, NCAT derived approximately 66% and 74%, respectively, of its revenue from contracts with various federal governmental agencies. Additionally, 42% and 45% 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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006

NOTE 4. RECEIVABLES

Receivables consist of the following:

	<u>2007</u>	<u>2006</u>
Billed receivables	\$ 353,508	\$ 247,181
Other miscellaneous receivables	16,437	12,928
Less allowance for doubtful accounts	-	-
	<u>\$ 369,944</u>	<u>\$ 260,109</u>

NOTE 5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>2007</u>	<u>2006</u>
Accrued payroll taxes and withholding	\$ 2,607	\$ 3,929
Accrued wages	68,912	95,074
Accrued vacation	85,771	95,055
Pension plan	61,097	116,532
Other accruals	4,751	5,846
	<u>\$ 223,137</u>	<u>\$ 316,436</u>

NOTE 6. LONG-TERM DEBT

At September 30, 2007 and 2006, NCAT has an unused line of credit of \$200,000 with a fixed annual interest rate of 9.25%. NCAT did not draw on this line of credit during either fiscal year.

For the years ended September 30, 2007 and 2006, NCAT incurred no interest expense.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006

NOTE 7. INCOME TAXES

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

	<u>2007</u>	<u>2006</u>
Current tax expense	\$ 100	\$ 150
Deferred provision (benefit)	<u>1,312</u>	<u>10,429</u>
Total tax provision (benefit)	<u>\$ 1,412</u>	<u>\$ 10,579</u>

NCAT and Subsidiary's total deferred tax liabilities, assets and deferred tax asset valuation allowances at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Accrued vacation	\$ -	\$ 35
Net operating loss carryforward	18,880	20,157
Less valuation allowance	<u>-</u>	<u>-</u>
	<u>\$ 18,880</u>	<u>\$ 20,192</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, 2007 and 2006, the Subsidiary had no valuation allowances for its deferred tax assets. The valuation allowance decreased \$-0- and \$30,621 during the years ended September 30, 2007 and 2006, 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 carry-forwards available to offset future income taxes are as follows:

<u>Fiscal Year Incurred</u>	<u>Amount</u>	<u>Expires</u>
1999	\$ 60,526	6/30/2019
2000	\$ 27,467	6/30/2020

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006

NOTE 8. CONTINGENCIES

Concentration of Cash and Cash Equivalents:

As of September 30, 2007 and 2006, NCAT had no significant deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. The Subsidiary had deposits of \$-0- and \$-0- in excess of the FDIC limits for the years ended September 30, 2007 and 2006, respectively.

As of September 30, 2007 and 2006, NCAT had repurchase account balances at First Citizens Bank totaling \$912,285 and \$669,659, 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.

NCAT's largest single contract, the USDA ATTRA project, has previously been funded at a level of \$2.5 million per year. NCAT received \$1.7 million and \$2.5 million in ATTRA funding in 2007 and 2006, respectively. At the beginning of fiscal year 2008, NCAT has received zero funding and is waiting for Congress to pass the appropriations bills that will fund the ATTRA program. NCAT anticipates full funding to be restored in the first quarter of calendar year 2008.

NOTE 9. LEASE COMMITMENTS

Facility:

NCAT leases facility space in Fayetteville, Arkansas, Davis, California, Lewis, Iowa, Shavertown, Pennsylvania, and Hammond, Louisiana on an annual basis.

NCAT leases facility space in:

- Fayetteville, Arkansas with monthly rent expense of \$2,800 per month, effective for three years beginning January 1, 2006;
- Davis, California with monthly rent expense of \$800 per month, effective month-to-month;
- Lewis, Iowa with monthly rent expense of \$400 per month, effective for three years beginning January 1, 2006;
- Shavertown, Pennsylvania with monthly rent expense of \$500 per month, effective for five years beginning December 1, 2006;
- Hammond, Louisiana with monthly rent expense of \$150, effective for one year beginning July 1, 2007.

All of the office rental space leases, except for Hammond, Louisiana, are contingent on continued federal funding.

During the years ended September 30, 2007 and 2006, NCAT's total facility rental expense was \$58,123 and \$62,079 respectively.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006

NOTE 9. LEASE COMMITMENTS (CONTINUED)

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, 2007 and 2006, equipment rental expense was \$33,028 and \$34,363, 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 includes at least 1000 hours of paid time. 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, 2007 and 2006 respectively, \$61,097 and \$115,900 of employer contributions were expensed in the accompanying consolidated financial statements.

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 \$201 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.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 and 2006

NOTE 12. INDIRECT COST RATES AND FUNCTIONAL ALLOCATION OF COSTS

NCAT's actual allocated cost rates for the fiscal years ended September 30, 2007 and September 30, 2006 are as follows:

<u>Cost Pool</u>	<u>2007</u>	<u>2006</u>
Directly allocated fringe - regular employees	42.00%	42.00%
Directly allocated overhead	33.31%	32.18%
Indirect general and administrative (G&A)	9.80%	10.00%

These rates do not include those of the Subsidiary.

NCAT allocates its costs to three main functions (program, general and administrative and fundraising) as follows:

Program Expenses:

Fringe:

Pool: Includes all fringe labor (vacation, holiday, sick, etc.) and fringe non-labor (insurance, employment related taxes, pension, and other various benefits).

Base: Total labor (excluding fringe labor) including overhead labor, G&A labor, federally unallowed labor and direct project labor.

Fringe is allocated to all labor, except fringe labor.

Direct Overhead:

Pool: Includes all overhead labor (including allocated fringe) and all non-labor overhead expenses (rent, computers, utilities, phones, lights, receptionist, supplies and various facility expense).

Base: Total direct project labor (including allocated fringe).

Direct overhead is allocated to all direct project labor, including allocated fringe.


General and Administrative:

Pool: Includes all G&A labor (including allocated fringe) and non-labor G&A expenses (accounting, payroll, management, auditing, board expense and various other general expenses).

Base: Total cost input including all direct, indirect and unallowable costs (labor, fringe, overhead and non-labor).

G&A is allocated to all direct project labor and direct project non-labor.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
September 30, 2007 AND 2006



**NOTE 12. INDIRECT COST RATES AND FUNCTIONAL ALLOCATION OF COSTS
(CONTINUED)**

In accordance with *OMB A-122, Subparagraph B-3*, “The costs of certain activities are not allowable as charges to Federal Awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for the purposes of determining indirect cost rates and be allocated their share of the organization’s indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization’s indirect costs.”

Fundraising:

Fundraising costs represent direct costs incurred for fundraising activities.

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 a royalty fee.

In consideration for the right to use the name, logo and trademark, the LLC agreed to pay the Subsidiary a royalty fee equal to two (2%) percent of the LLC’s annual cash receipts in excess of \$1,200,000 in a calendar year, provided that the fee shall not exceed \$20,000 in any given year and shall not exceed \$110,000 in the aggregate. The royalty fee began with calendar year 2006 and no receivables for accrued royalty fees were recorded at September 30, 2006 and September 30, 2007.



SINGLE AUDIT SECTION

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2007

<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			
Direct programs:			
GIN Control Strategies	10.001	58-6227-6-037	\$ 6,301
Compliance Tools for Organic Ag Producers	10.200	12-25-A-4350	89
Appropriate Technology Transfer for Rural Areas (ATTRA)	10.350	RBS-97-02	1,633,579
Record Keeping for Success	10.443	2003-51200-01649	46,937
Making Record Keeping & Sustainable Production Information Accessible to Immigrant Farmers	10.455	07IE08310312-C	6,134
Building Farm Energy Self-Sufficiency	10.456	06-IE-0831-0060-P	\$ 73,770
Accessing AGR-Lite - Risk Management Software Tool for Diversified Farmers	10.456	07IE08310204	<u>3,282</u>
Total for CFDA number 10.456			77,052
RMA Managing Farm Energy Risks in Northeast	10.457	06-IE-0831-0110-E	147,235
Managing Farm Energy Risks in Valdosta RMA Region	10.457	07-IE-08310054-E	1,231
Managing Farm Energy Risks in Raleigh RMA Region	10.457	07-IE-08310060-E	<u>1,231</u>
Total for CFDA number 10.457			149,697
Natural Resource Conservation Service (NRCS)			
Sustainable American Cotton Project	10.912	68-3A75-5-177	36,183
CIG Oilseeds for Fuel, Feed, & Future	10.912	65-0325-06-027	<u>19,901</u>
Total for CFDA number 10.912			<u>56,084</u>
Total direct programs			<u>1,975,873</u>
Pass-through programs:			
Sustainable Agriculture Research and Education,			
passed through Utah State University	10.200	03-1535042	6,973
passed through Utah State University	10.200	051687043	630
passed through University of Georgia	10.200	RD309-040/3581487	32,002
passed through University of Nebraska	10.200	25-6205-0040-051	<u>2,402</u>
Total for CFDA number 10.200			42,007
passed through University of Arkansas	10.303	UA AES 90809-02	1,805
passed through Utah State University	10.500	C032062	21,541
passed through Utah State University	10.500	04-1549002	41,776
passed through Utah State University	10.500	051688012	22,037
passed through University of Wyoming	10.500	UTSTUNV6243	6,009
passed through University of Wyoming	10.500	UTSTUNV46459PDP	<u>653</u>
Total for CFDA number 10.500			<u>92,016</u>
Total pass-through programs:			<u>135,828</u>
Total U.S. Department of Agriculture			<u>2,111,701</u>

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 Health and Human Services			
Direct programs:			
LIHEAP Clearinghouse	93.568	1435-04-03-CT-73120	228,929
Pass-through programs:			
passed through Montana Department of Public Health & Human Services - REACH Weatherization Assistance	93.568	07-028-30015-0	<u>83,688</u>
Total U.S. Department of Health and Human Services			<u>312,617</u>
 Total expenditures of federal awards			 <u>\$ 2,424,318</u>

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2007

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 \$134,023 is included in the ATTRA federal expenditures (CFDA #10.350).



& COMPANY

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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 financial statements of the National Center for Appropriate Technology, Inc. (a nonprofit organization) and Subsidiary (NCAT) as of and for the year ended September 30, 2007 and 2006, and have issued our report thereon dated December 31, 2007. 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 NCAT's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCAT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCAT's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCAT'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of NCAT in a separate letter dated January 2, 2008.

This report is intended solely for the information and use of management, the audit committee, 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
January 2, 2008



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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. (NCAT) 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 each of its major federal programs for the year ended September 30, 2007. NCAT's major federal programs are 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 NCAT's management. Our responsibility is to express an opinion on NCAT'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 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 federal program occurred. An audit includes examining, on a test basis, evidence about NCAT'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 of NCAT's compliance with those requirements.

In our opinion, NCAT complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of NCAT 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 NCAT's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NCAT's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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
January 2, 2008

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007



SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the combined financial statements.
2. No material weaknesses relating to the audit of the financial statements 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*. There were no reported significant deficiencies that were not considered material weaknesses.
3. No instances of noncompliance material to the combined financial statements were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal awards programs are reported in the report on compliance with requirements applicable to its major programs and on internal control over compliance in accordance with OMB Circular A-133. There were no reported significant deficiencies that were not considered material weaknesses.
5. The auditor's report on compliance for the major federal awards programs for NCAT expresses an unqualified opinion on the major programs.
6. The audit did not disclose any audit findings that the auditor is required to report under OMB Circular A-133.
7. The major programs are Appropriate Technology Transfer for Rural Areas (ATTRA), CFDA number 10.350, Managing Farm Energy Risks Cluster, CFDA number 10.457 through the U.S. Department of Agriculture and LIHEAP, CFDA number 93.568 through the U.S. Department of Health and Human Services.
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, 2007.

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, 2007



There were no findings, reportable conditions, or questioned costs for the year ended September 30, 2006.