

**VIRGINIA'S A.L. PHILPOTT  
MANUFACTURING EXTENSION PARTNERSHIP  
MARTINSVILLE, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED JUNE 30, 2002 AND  
THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2002**



## **AUDIT SUMMARY**

Our audit of Virginia's A.L. Philpott Manufacturing Extension Partnership for the fiscal year ended June 30, 2002, and the six-month period ended December 31, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the accounting system of its fiscal agent;
- no material weaknesses in internal control; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

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April 16, 2003

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit and  
Review Commission  
General Assembly Building  
Richmond, Virginia

#### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of **Virginia's A.L. Philpott Manufacturing Extension Partnership** (the Partnership) for the year ended June 30, 2002, and the six-month period ended December 31, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Partnership's accuracy of recording financial transactions on the accounting system of its fiscal agent, review the adequacy of the Partnership's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Partnership's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Partnership's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with applicable laws and regulations.

The Partnership's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Partnership properly stated, in all material respects, the amounts recorded and reported in the accounting system of its fiscal agent. The Partnership records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We found no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the Partnership's financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 16, 2003.

AUDITOR OF PUBLIC ACCOUNTS

KDJM/kva  
kva: 49

## FINANCIAL HIGHLIGHTS

The Partnership, an independent entity headquartered at Patrick Henry Community College (the College) in Martinsville-Henry County, Virginia, seeks to foster statewide economic growth by enhancing the competitiveness of Virginia's small to mid-sized manufacturers. The Partnership carries out its mission through manufacturing specialists who deliver consulting services from 11 regional offices located throughout the Commonwealth.

The Partnership employs an executive director, business manager, office manager, systems administrator, operations manager, and manufacturing specialists and has a 23-member board of trustees. The College, as its fiscal agent, provides budget, accounting, and payroll support. The Partnership anticipates that this support will continue in the future.

The Partnership is a discrete component unit of the Commonwealth. The Partnership maintains its operations from funding from the U.S. Department of Commerce; National Institute of Standards and Technology - Manufacturing Extension Partnership; General Fund Appropriations; Virginia's Center for Innovative Technology; and fees for consulting services.

The Partnership continues to experience reductions in their General Fund appropriation due to the Commonwealth's budget shortfalls. For fiscal years 2002 and 2003, the Partnership experienced an \$18,000 and \$52,596 reduction, respectively, in General Fund appropriations. In an effort to offset the General Fund appropriation reductions, the Partnership's board of trustees, management, and staff have aggressively pursued funding from consulting services. The following table summarizes the financial activity for the fiscal year ended June 30, 2002, and the six-month period ended December 31, 2002, as recorded on the College's accounting system.

	Fiscal Year Ended June 30, 2002		Six Months Ended December 31, 2002	
	<u>General Fund</u>	<u>Nongeneral Fund</u>	<u>General Fund</u>	<u>Nongeneral fund</u>
Revenues:				
Annual appropriations	\$582,000	\$ -	\$547,404	\$ -
Private gifts and grants	-	333,200	-	148,852
Federal grants	-	1,170,492	-	707,705
Fees for consulting services	-	921,933	-	761,542
Total revenues	<u>582,000</u>	<u>2,425,625</u>	<u>547,404</u>	<u>1,618,099</u>
Expenses:				
Salaries and fringe benefits	-	2,009,732	-	1,177,371
Contractual services	565,975	377,506	297,164	325,452
Equipment	14,998	33,574	2,839	47,600
Other	1,027	102,710	1,066	49,099
Total expenses	<u>582,000</u>	<u>2,523,522</u>	<u>301,069</u>	<u>1,599,522</u>
Net increase/(decrease) for the year	-	(97,897)	246,335	18,577
Beginning balance, July 1, 2001	-	539,848	-	-
Beginning balance, July 1, 2002	-	-	-	441,951
Ending balance, Fiscal 2002	<u>\$ -</u>	<u>\$ 441,951</u>		
Remaining balance, Fiscal 2003			<u>\$246,335</u>	<u>\$ 460,528</u>

VIRGINIA'S A.L. PHILPOTT  
MANUFACTURING EXTENSION PARTNERSHIP  
Martinsville, Virginia

BOARD OF TRUSTEES

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Gideon C. Huddle	John K. Waddell
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Jeff Kohler, Executive Director