

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2004 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control that we considered necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

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OVERVIEW AND FINANCIAL HIGHLIGHTS

The purpose of the A.L. Philpott Manufacturing Extension Partnership is to foster statewide economic growth by enhancing the competitiveness of Virginia's small to mid-sized manufacturers. As an independent entity headquartered at Patrick Henry Community College in Martinsville-Henry County, Virginia, they provide assistance to the business community through six regional offices across the Commonwealth. The assistance is primarily consulting to help companies increase productivity, lower costs, identify growth opportunities, improve technology application, and strengthen production teams. The Partnership's manufacturing specialists deliver consulting services that include:

Lean Enterprise	Lean Six Sigma SM
Quality Systems	Supply Chain Management
People Systems	Enterprise Plus SM
Strategic Management	

The Partnership also works in conjunction with a number of state and local agencies including the Virginia Department of Business Assistance and Virginia's Manufacturing Innovation Center at James Madison University.

The Partnership funds its assistance programs with Commonwealth of Virginia General Fund appropriations, special revenue derived from fees charged to clients for consulting services, and federal and state grants from the U.S. Department of Commerce, National Institute of Standards and Technology - Manufacturing Extension Partnership, and Virginia's Center for Innovative Technology.

<u>Funding Source</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Over/Under Budget</u>
General Fund appropriations	\$ 508,000	\$ 508,140	\$ 140
Special revenue	1,850,000	2,334,329	484,329
Federal and state grants	<u>1,377,000</u>	<u>1,587,695</u>	<u>210,695</u>
Total	<u>\$3,735,000</u>	<u>\$4,430,164</u>	<u>\$695,164</u>

The Partnership has experienced a gradual decline in General Fund appropriations, which comprises 11 percent of the Partnership's total funding. To offset this decline, management continues to pursue additional funding with fees from consulting services. As a result, fee revenues increased \$683,000 between 2003 and 2004. The Partnership earned \$484,329 more than anticipated in fiscal 2004 due to increased demand for the lean manufacturing and quality systems services it provided to clients. In addition, the Partnership received approximately \$200,000 in grant funds for fiscal year 2005 in June 2004. The following is fiscal 2004 financial information for the Partnership.

	<u>General Fund</u>	<u>Federal and State Grants</u>	<u>Special Revenue</u>	<u>Total</u>
Net assets:				
Cash	<u>\$ -</u>	<u>\$ 579,336</u>	<u>\$ 535,757</u>	<u>\$1,115,093</u>
Revenue	<u>\$508,140</u>	<u>\$1,587,695</u>	<u>\$2,334,330</u>	<u>\$4,430,164</u>
Expenditures:				
Salaries and fringe	-	1,210,031	1,004,505	2,214,537
Contractual	497,478	127,460	965,287	1,590,226
Equipment	5,645	-	82,451	88,096
Supplies, materials, rent, and other	<u>5,017</u>	<u>20,855</u>	<u>85,046</u>	<u>110,917</u>
Total expenditures	<u>508,140</u>	<u>1,358,346</u>	<u>2,137,289</u>	<u>4,003,774</u>
Change in net assets	-	229,349	197,041	426,390
Net assets, June 30, 2003	<u>-</u>	<u>349,987</u>	<u>338,716</u>	<u>688,703</u>
Net assets, June 30, 2004	<u>\$ -</u>	<u>\$ 579,336</u>	<u>\$ 535,757</u>	<u>\$1,115,093</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 12, 2005

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

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Partnership activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the Partnership's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

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, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles, classes of transaction, and account balances:

Expenditures

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, 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.

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 to provide an opinion on overall compliance with laws, regulations, contracts and grant agreements. 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 Commonwealth Accounting and Reporting System for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on August 31, 2005.

AUDITOR OF PUBLIC ACCOUNTS

SW/kva

VIRGINIA'S A.L. PHILPOTT
MANUFACTURING EXTENSION PARTNERSHIP

Jeff Kohler, Executive Director

BOARD OF TRUSTEES

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Ann E. Alexander	Nathaniel X. Marshall
Joey Arrington	Camille Wright Miller
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Martin Lightsey	Rodney E. Taylor

John K Waddell