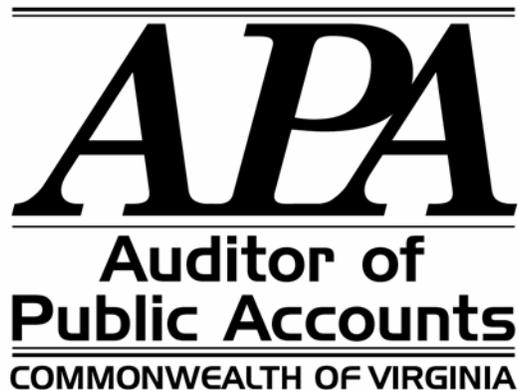


**VIRGINIA'S A.L. PHILPOTT
MANUFACTURING EXTENSION PARTNERSHIP**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2005, 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 or other matters 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, the Partnership provides 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 |
| Quality Systems | Supply Chain Management |
| People Systems | Enterprise Plus |
| Strategic Management | |

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>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
General Fund appropriations	\$ 508,000	\$ 508,140	\$ 140
Special revenue	2,800,000	3,005,312	205,312
Federal and state grants	<u>833,178</u>	<u>1,534,811</u>	<u>701,633</u>
Total	<u>\$4,141,178</u>	<u>\$5,048,263</u>	<u>\$907,085</u>

The Partnership is becoming less dependent on General Fund appropriations, which accounted for approximately ten percent of the Partnership’s total funding for fiscal year 2005. Management is receiving more funding from fees for consulting services due to increased demand for the lean manufacturing and quality systems it provides to clients. As a result, expenses for salaries and contractual expenses have increased. The following tables summarize the Partnership’s actual funding by source for fiscal years 2003 through 2005, and fiscal 2005 expenditures by funding source.

<u>Funding Source</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund appropriations	\$ 547,404	\$ 508,140	\$ 508,140
Special revenue	1,540,064	2,334,329	3,005,312
Federal and state grants	<u>1,694,483</u>	<u>1,587,695</u>	<u>1,534,811</u>
Total	<u>\$3,781,951</u>	<u>\$4,430,164</u>	<u>\$5,048,263</u>

	<u>General Fund</u>	<u>Federal and State Grants</u>	<u>Special Revenue</u>	<u>Total</u>
Expenditures:				
Salaries and fringes	-	\$1,030,164	\$1,309,828	\$2,339,992
Contractual	\$419,771	205,555	1,653,928	2,279,254
Equipment	146	-	84,649	84,795
Supplies, materials, rent, and other	<u>88,223</u>	<u>36,248</u>	<u>3,095</u>	<u>127,563</u>
Total expenditures	<u>\$508,140</u>	<u>\$1,271,967</u>	<u>\$3,051,500</u>	<u>\$4,831,604</u>



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 15, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
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, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

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 on CARS, reviewed the adequacy of Partnership's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

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.

We gained an understanding of the overall internal controls, 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenues
- Expenditures
- Payroll

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 provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and observation of the Partnership's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

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. The Partnership records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

EXIT CONFERENCE

We discussed this report with management on May 30, 2006. This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SW/kva

VIRGINIA'S A.L. PHILPOTT
MANUFACTURING EXTENSION PARTNERSHIP

Jeff Kohler
Executive Director

BOARD OF TRUSTEES

Thomas W. Godfrey, Jr.
Chairman

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Kenneth R. Garren	Robert F. Pecht
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Patrick O. Gottschalk	Darrel W. Staat
Sharon L. Harrup	Thomas S. Stump
Peter Jobse	Rodney E. Taylor

Richard Teaff