During fiscal year 2013-14, the South Carolina Department of Commerce (Commerce) was appropriated $682,049 designated for the S.C. Manufacturing Extension Partnership (SCMEP) in accordance with Proviso 50.19 of the Fiscal Year 2013-14 Appropriation Act. In addition, the proviso requires Commerce to prepare a report of the prior year expenditures for the SCMEP.

Commerce and SCMEP have entered into a partnership to work together to better integrate the activities of SCMEP with the state's mission to stimulate economic activity and develop the competitiveness of existing small- and medium-size manufacturers in South Carolina.

In addition, Commerce and SCMEP have integrated SCMEP's field agent services to manufacturers in the state with Commerce's existing business services. The purpose of this program is to maintain and grow the relationship between Commerce and existing industry through one-on-one visits. From June 2013 to July 2014, 173 visits were conducted by SCMEP's field agents.

During each visit, information on the programs of Commerce are discussed with a few primary goals in mind:

- Identify barriers or issues with the company that may be preventing efficient operation and possible growth
- Identify possible new investment through potential suppliers
- Identify possible expansion opportunities
- Identify early warning signs of possible plant layoffs or closings

For the current fiscal year, the SCMEP and Commerce have bolstered the existing industry program by increasing the number of client visits per quarter and working together to better assess - and address - the needs of our manufacturers. This outreach will help sustain and grow industry in our state.

SCMEP has provided Commerce with their 2013 annual impact report and annual audit, which is attached to this report.

If you have any questions, please do not hesitate to contact Chris Huffman at 803-737-0462.

SC MEP
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

# Helping South Carolina Companies Grow

## 2013 Annual Impact = $441.9 million

### Reported by SCMEP's Manufacturing Clients

| | | |
|---|---|---|
| New and Retained Sales<br>$288.6 million | New Product Sales<br>$42.9 million | Capital Investment<br>$111.5 Million |
| Jobs Created - 814<br>Jobs Retained - 2,675 | Cost Savings<br>$41.8 Million | Manufacturers Served - 274<br>New Clients Served - 89 |

## A few highlights include:

### TOOL TECHNOLOGY CORPORATION

*"We couldn't be more pleased with the outcome of the partnership with SCMEP, SC Works, and SCDEW. We have retained jobs and sales and have seen growth already. With a forecast of $1,000,000 in new sales and the need for additional employees imminent, we see this partnership as a huge success and will certainly turn to the SCMEP, SC Works, and SCDEW in the future."*

- Don Reid, Owner

**RESULTS:**

- RETAINED 11 JOBS
- CREATED 2 JOBS
- RETAILED SALES $100,000
- INCREASED SALES $1,000,000
- COST SAVINGS $50,000

### SYN STRAND, INC.

*"The Company is now able to maintain disciplined inventory control and institute management changes quicker. We use the theory of constraints to control demand indicators, allowing us to optimize the utilization of assets and manage the entire system much more efficiently. "*

- Bart Burford, Operations Manager

**RESULTS:**

- RETAINED 8 JOBS
- INCREASED SALES BY $2,000,000
- COST SAVINGS OF $200,000 / YEAR
- COST AVOIDANCE OF $3,000,000
- CAPACITY INCREASE OF 10%
- INVENTORY REDUCED BY 10%

### MARCHEL INDUSTRIES

*"As far as helping us grow and acquire a new customer base, once we started working with SCMEP, we realized that the Rapid Response program would be the way to go. The programs that SCMEP presented to us were very innovative, and we felt that they would help us reach the goals we set for Marchel Industries."*

- Gene Pitts, Operations Director

**RESULTS:**

- RETAINED 18 JOBS
- CREATED 2 JOBS
- RETAINED $150,000 IN SALES
- COST SAVINGS OF $7,500
- NEW SALES OF $18,000

## SCMEP Management Team

John Irion
CEO / President

Chuck Spangler
COO

## SCMEP Partners and Alliances

*Education Partners*

University of South Carolina
Clemson University
South Carolina State Technical College System

*Public and Business*

South Carolina Chamber of Commerce
South Carolina Department of Commerce
South Carolina Economic Developers Association
South Carolina Export Consortium
South Carolina Small Business Development Center
South Carolina Small Business Chamber
Service Corps of Retired Executives (SCORE)
U.S. Small Business Administration
NIST MEP

*South Carolina Lean Alliances*

CSRA Lean Alliance
Greenwood Lean Consortium
Low Country Lean Alliance
Metrolina Lean Alliance
Midlands Lean Alliance
Pee Dee Lean Alliance
Upstate Lean Alliance

## SCMEP Offices

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**Business Learning Center**
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(864) 288 - 5687 Phone

SC MEP

SOUTH CAROLINA
MANUFACTURING
EXTENSION
PARTNERSHIP

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AUDITED FINANCIAL STATEMENTS

*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*

June 30, 2013

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June 30, 2013



AUDITED FINANCIAL STATEMENTS



GOVERNMENTAL AUDITING SECTION

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# INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
South Carolina Manufacturing Extension Partnership

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Carolina Manufacturing Extension Partnership (the "*Partnership*"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


*Providing Auditing, Tax, and Accounting Services since 1986*

## OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of the Partnership's internal control over financial reporting and on 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* in considering the Partnership's internal control over financial reporting and compliance.

Columbia, South Carolina
October 24, 2013

The Hobbs Group, P.A.

# AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash | $ 200,287 | $ 412,156 |
| Investments | 2,149,988 | 2,340,751 |
| Investment in related party | 35,000 | 0 |
| Accounts receivable, net | 476,015 | 473,468 |
| Grants receivable | 156,529 | 191,296 |
| Note receivable | 29,418 | 10,619 |
| Other current | 19,594 | 59,522 |
| Total Current Assets | 3,066,831 | 3,487,812 |
| Noncurrent Assets | | |
| Note receivable | 6,872 | 33,131 |
| Property and equipment, net | 148,425 | 70,530 |
| Total Noncurrent Assets | 155,297 | 103,661 |
| TOTAL ASSETS | $ 3,222,128 | $ 3,591,473 |
| **LIABILITIES AND NET ASSETS** | | |
| Current Liabilities | | |
| Accounts payable | $ 115,780 | $ 272,308 |
| Accrued expenses | 383,190 | 416,372 |
| Due to partners | 33,605 | 55,755 |
| Deferred revenue | 1,250 | 0 |
| Total Current Liabilities | 533,825 | 744,435 |
| Net Assets | | |
| Unrestricted | 2,688,303 | 2,847,038 |
| TOTAL LIABILITIES AND NET ASSETS | $ 3,222,128 | $ 3,591,473 |

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*

| | For the Years Ended June 30, 2013 | 2012 |
|---|---|---|
| REVENUES AND OTHER SUPPORT | | |
| Federal grants | $ 2,670,972 | $ 3,069,540 |
| State and local grants | 682,048 | 682,048 |
| Program service revenue | 2,364,541 | 2,405,947 |
| Subaward cost share | 760,601 | 1,416,983 |
| In-kind contributions | 672,156 | 415,904 |
| Investment income | 10,364 | 31,453 |
| Other | 3,321 | 5,829 |
| Total Revenues and Other Support | 7,164,003 | 8,027,704 |
| EXPENSES | | |
| Program services | 6,266,931 | 6,947,150 |
| Supporting Services | | |
| Management and general | 1,055,807 | 1,142,199 |
| Fundraising | 0 | 11,272 |
| Total Expenses | 7,322,738 | 8,100,621 |
| CHANGE IN NET ASSETS | (158,735) | (72,917) |
| Net assets at beginning of year | 2,847,038 | 2,919,955 |
| NET ASSETS AT END OF YEAR | $ 2,688,303 | $ 2,847,038 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*
For The Year Ended June 30, 2013

| | Program Service | Supporting Services: Management and General | Supporting Services: Fundraising | Total Expenses |
|---|---|---|---|---|
| Personnel | $ 2,126,355 | $ 658,931 | | $ 2,785,286 |
| Contractual services | 545,129 | 118,453 | | 663,582 |
| Third parties services | 1,161,274 | | | 1,161,274 |
| Sub awards | 1,121,320 | | | 1,121,320 |
| Travel | 193,495 | 8,127 | | 201,622 |
| Project supplies | 150,119 | 271 | | 150,390 |
| Marketing | 87,682 | | | 87,682 |
| Advertising | 13,337 | 5,156 | | 18,493 |
| Training and l development | 22,429 | 2,607 | | 25,036 |
| Office expense | 105,768 | 31,637 | | 137,405 |
| Occupancy | 40,122 | 100,764 | | 140,886 |
| Bad debt | | 80,069 | | 80,069 |
| Other expenses | 17,164 | 18,049 | | 35,213 |
| In-kind expenses | 672,156 | | | 672,156 |
| Total Expenses Before Depreciation | 6,256,350 | 1,024,064 | $ 0 | 7,280,414 |
| Depreciation | 10,581 | 31,743 | | 42,324 |
| TOTAL EXPENSES | $ 6,266,931 | $ 1,055,807 | $ 0 | $ 7,322,738 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*
For The Year Ended June 30, 2012

| | Program Service | Supporting Services: Management and General | Supporting Services: Fundraising | Total Expenses |
|---|---|---|---|---|
| Personnel | $ 1,979,906 | $ 668,279 | | $ 2,648,185 |
| Contractual services | 881,045 | 202,599 | $ 10,359 | 1,094,003 |
| Third party services | 945,210 | | | 945,210 |
| Sub awards | 1,940,155 | | | 1,940,155 |
| Travel | 213,766 | 12,326 | | 226,092 |
| Project supplies | 296,745 | | | 296,745 |
| Marketing | 78,122 | | | 78,122 |
| Advertising | 4,415 | 9,875 | | 14,290 |
| Training and development | 22,700 | 5,334 | | 28,034 |
| Office expense | 101,182 | 46,869 | | 148,051 |
| Occupancy | 27,012 | 75,933 | | 102,945 |
| Bad debt | | 52,094 | | 52,094 |
| Other expenses | 35,960 | 43,529 | 213 | 79,702 |
| In-kind expenses | 413,160 | 2,044 | 700 | 415,904 |
| Total Expenses Before Depreciation | 6,939,378 | 1,118,882 | 11,272 | 8,069,532 |
| Depreciation | 7,772 | 23,317 | | 31,089 |
| TOTAL EXPENSES | $ 6,947,150 | $ 1,142,199 | $ 11,272 | $ 8,100,621 |

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*

| | For the Years Ended June 30, 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Decrease in net assets | $ (158,735) | $ (72,917) |
| Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 42,324 | 31,089 |
| Provision for losses on accounts receivable | 80,069 | 52,094 |
| Reinvested dividends and interest | (33,182) | (34,864) |
| Unrealized loss on investments | 23,948 | 6,482 |
| Loss on disposal of equipment | 2,597 | 4,988 |
| Increase in accounts receivable | (95,612) | (117,775) |
| (Increase) decrease in grants receivable | 34,767 | (87,630) |
| (Increase) decrease in note receivable | 7,460 | (13,952) |
| (Increase) decrease in other assets | 52,851 | (52,335) |
| Decrease in prepaid expenses | 73 | 4,503 |
| (Decrease) increase in accounts payable | (156,529) | 138,350 |
| (Decrease) increase in accrued expenses | (33,182) | 57,294 |
| Decrease in due to partners | (22,149) | (35,176) |
| (Decrease) increase in deferred revenue | 1,250 | (6,349) |
| NET CASH USED BY OPERATING ACTIVITIES | (254,050) | (126,198) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (122,816) | (26,151) |
| Purchase of investments and securities | (995,003) | (195,000) |
| Proceeds from maturities of investments | 1,160,000 | 445,000 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 42,181 | 223,849 |
| CHANGE IN CASH | (211,869) | 97,651 |
| Cash at beginning of year | 412,156 | 314,505 |
| CASH AT END OF YEAR | $ 200,287 | $ 412,156 |

The accompanying notes are an integral part of these financial statements.

## NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Activities

South Carolina Manufacturing Extension Partnership (the "Partnership"), was organized and incorporated under the laws of the State of South Carolina in June 1996 as a tax-exempt, not-for-profit organization that provides South Carolina businesses with a range of innovative strategies and solutions to drive growth, eliminate waste and develop resources. The Partnership is a strategic advisor, promoting business growth and connecting manufacturers to public and private resources essential to their achieving increased competitiveness and profitability. The Partnership relies on federal and state funding for a significant amount of its support.

### Summary of Significant Accounting Policies

Basis of Accounting: The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation: The Partnership prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements for Not-for-Profit Organizations. Under ASC 958, the Partnership is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These categories are defined as follows:

> Unrestricted Net Assets: net assets that are not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
>
> Temporarily Restricted Net Assets: net assets are subject to donor-imposed stipulations, which are met by either actions of the Partnership and/or the passage of time. When a donor-imposed restriction is met, that is, when the stipulated time restriction ends or 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. Presently, there are no temporarily restricted net assets as of June 30, 2013 or 2012.
>
> Permanently Restricted Net Assets: net assets resulting from contributions and other inflows of assets whose use by the Partnership is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Partnership. Presently there are no permanently restricted net assets of as of June 30, 2013 or 2012.

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition: Grant and support of cash and other assets are reported as unrestricted support unless specifically restricted by the donor. Grants and contributions received with donor-imposed restrictions that are met in the same year in which the grant or contribution is received are also classified as unrestricted support. All grants and contributions received are due to be received in less than one year. Revenues received from grants that are received under reimbursable expense arrangements or contracts for services are recognized as the funds are spent or the services are provided.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and changes therein, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates in these financial statements relate to the valuation of in-kind expense, estimate useful life of fixed assets, allowance for doubtful accounts, and certain wage accruals. Actual results could differ from those estimates.

Cash: Cash and cash equivalents include all unrestricted highly liquid investments with an initial maturity of three months or less.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note E for the discussion of fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) (i.e., realized and unrealized gains and losses on investments) is included in the State of Activities, net of investment expenses, as increases or decreases in unrestricted net assets unless such income or appreciation is restricted by donor or law.

Accounts Receivable and Allowance for Doubtful Accounts: The majority of accounts receivable represent unsecured receivables related to services provided on a contract basis. The Partnership uses the allowance method to account for uncollectible accounts receivable. Normal accounts receivable are due thirty days after the date of the invoice. Receivables past due more than ninety days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. The allowance for doubtful accounts included in accounts receivable for the years ended June 30, 2013 and 2012 was $120,000 and $125,190, respectively.

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Grants Receivable: Grants receivable represents amounts due from various governmental agencies under reimbursable grants. Grants receivable are carried at their estimated collectable amounts using the allowance method.

Functional Allocation of Expense: The costs of providing the Partnership's various programs and other activities have been summarized on a functional basis in the statement of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among program, management and general and fundraising services based on management's judgment.

Property and Equipment: Property and equipment is stated at cost, if purchased and at fair market value at date received if donated. Capitalization threshold is currently set at $2,500 and a minimum useful life greater than one year. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis as follows:

| | |
|---|---|
| Leasehold Improvements | 10 years |
| Furniture, Fixtures and Equipment | 3-7 years |
| Vehicles | 5 years |

Deferred Revenue: Deferred revenue represents project revenues received but not yet earned.

Income Taxes: The Partnership has received a determination letter from the Internal Revenue Service (IRS) indicating it is a tax-exempt Organization under Section 501(c) (3) of the Internal Revenue Code and is subject to federal income tax only on unrelated business income. Management is not aware of any transactions which would jeopardize their tax-exempt status.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Partnership and to recognize a tax liability (or asset) if the Partnership has taken an uncertain position that more likely than not would not be substantiated upon examination by the IRS. Management has analyzed the tax positions taken by the Partnership and has concluded that as of June 30, 2013 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Partnership is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for fiscal years prior to 2010. U.S. state jurisdictions have statutes of limitations that generally range from three to five years. Currently no audits for any tax periods are in progress.

Matching Expense Requirements: The Partnership receives federal grant proceeds to partially fund various programs. The remaining funding for the programs must be obtained from non-federal sources. Under the National Institute of Standards and Technology cooperative agreement, the Partnership uses expenses incurred by its partners to match the federal grant proceeds distributed to the partners. These matching expenses are recorded by the Partnership as contributions.

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

In-Kind Contributions: The in-kind contributions consist of the use of facilities and various contractual services, which are valued at estimated market value. Contractual services are recognized if the services received a) create or enhance nonfinancial assets, or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Advertising Costs: Costs incurred for producing and communicating advertising and promotion are expensed when incurred, which is generally when the advertising and promotion first takes place. Advertising and promotion expense for the years ended June 30, 2013 and 2012 was $18,493 and $14,290, respectively.

Concentration of Credit Risk: The Partnership maintains its cash deposits in an account at a financial institution. All accounts are insured by the Federal Depository Insurance Corporation (FDIC) to the maximum amount allowed by law. The Partnership has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk related to cash for the years ending June 30, 2013 and 2012, respectively.

Concentrations of credit risk with respect to trade receivables arise through extending credit to customers, generally without requiring collateral. The Partnership maintains an allowance for doubtful accounts to cover estimated credit losses.

Compensated Absences: The Partnership's paid time off is accrued at year end for financial reporting purposes. The liability and expense incurred are recorded as a current liability in the statement of financial position and as a component of personnel expense in the statement of functional expense.

Reclassifications: Certain reclassifications have been made to the 2012 classifications to make the presentation comparable to the 2013 presentation. These reclassifications have no impact on net assets as previously reported.

Subsequent Events: Management of the Partnership has evaluated subsequent events through October 24, 2013 the date the financial statements were available to be issued.

## NOTE B -- INVESTMENTS

The fair value of investments is estimated based upon quoted market prices for those or similar investments. See note E for the discussion of fair value measurements. Investments consist of the following at June 30:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Money market fund | $ 464,733 | $ 464,733 | | |
| Mutual funds | 978,952 | 981,825 | $ 1,839,651 | $ 1,856,304 |
| Certificates of deposit | | | 95,000 | 95,616 |
| Government agency bonds | 250,000 | 247,885 | | |
| Corporate bonds | 455,366 | 455,545 | 394,700 | 388,831 |
| TOTAL | $ 2,149,051 | $ 2,149,988 | $ $2,329,351 | $ 2,340,751 |

## NOTE C -- PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

| | 2013 | 2012 |
|---|---|---|
| Leasehold improvements | $ 2,798 | $ 169,637 |
| Furniture, fixtures and equipment | 194,950 | 88,005 |
| Vehicles | 48,898 | 48,898 |
| | 246,646 | 306,540 |
| Less accumulated deprecation | (98,221) | (236,010) |
| TOTAL PROPERTY AND EQUIPMENT, NET | $ 148,425 | $ 70,530 |

Depreciation expenses were $42,324 and $31,089 for the years ending June 30, 2013, and 2012, respectively.

## NOTE D -- NOTES RECEIVABLE

The Partnership issued two notes receivable for customers. A note in the amount of $15,000, payable in two installments during 2014, was issued for services rendered during 2012. The second note was originally issued in 2011 to a customer with a past due balance. The outstanding balance on the note was re-amortized in June 2012 to accrue interest on past due payments. The note provides for monthly payments including principal and interest of $1,000 for 31 months bearing an interest rate of 6%. The note became past due during the year. Past due status is determined by contractual terms. Customer has agreed to pay $1,500 monthly payments until the account is current. The note was 90 days past due at June 30, 2013. The balance on that note at June 30, 2013 was $21,290. Future principal payments under the notes are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2014 | $ | 29,418 |
| 2015 | | 6,872 |
| TOTAL | $ | 36,290 |

## NOTE E -- FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Partnership has the ability to access.

Level 2 Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

*Money market*: Valued using their net asset value of $1.00 per unit because of the ability to transact at will at the stable net asset value.

*Certificates of deposit*: Valued using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates and volatility.

*Mutual funds and corporate bonds*: Valued at the closing price reported on the active market on which the individual securities are traded. Corporate bonds are disaggregated based on their S&P ratings.

NOTE E -- FAIR VALUE MEASUREMENTS - Continued

The following table sets forth by level, within the fair value hierarchy, the Partnership's fair value measurements as of June 30, 2013 and 2012:

| | Assets at Fair Value as of June 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market | $ 464,733 | | | $ 464,733 |
| Mutual funds | | | | |
| Federated government obligation | 247,885 | | | 247,885 |
| Fixed income | 981,825 | | | 981,825 |
| Corporate bonds | | | | |
| Aa | | $ 206,379 | | 206,379 |
| A | | 249,166 | | 249,166 |
| TOTAL ASSETS AT FAIR VALUE | $ 1,694,443 | $ 455,545 | $ 0 | $ 2,149,988 |

| | Assets at Fair Value as of June 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Certificates of deposit | | $ 95,616 | | $ 95,616 |
| Mutual funds | | | | |
| Federated government obligation | $ 882,027 | | | 882,027 |
| Fixed income | 974,277 | | | 974,277 |
| Corporate bonds | | | | |
| Aa | | 156,099 | | 156,099 |
| A | | 232,732 | | 232,732 |
| TOTAL ASSETS AT FAIR VALUE | $ 1,856,304 | $ 484,447 | $ 0 | $ 2,340,751 |

A summary of the return on investments consist of the following for the years ended June 30:

| | 2013 | 2012 |
|---|---|---|
| Interest | $ 19,533 | $ 21,668 |
| Dividends | 14,694 | 16,183 |
| Realized gain (loss) | (23,863) | (6,398) |
| TOTAL INVESTMENT INCOME | $ 10,364 | $ 31,453 |

## NOTE F -- IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following for the years ending June 30:

| | 2013 | 2012 |
|---|---|---|
| Office/faculty rent space | $ 18,345 | $ 113,074 |
| Software | 270,600 | 270,600 |
| Consulting services | 383,211 | 32,230 |
| TOTAL | $ 672,156 | $ 415,904 |

## NOTE G -- EMPLOYEE BENEFITS

The Partnership has adopted a defined contribution plan and trust, covering substantially all employees. Employer contributions, if any, are determined at the sole discretion of the Board of Directors, not to exceed 10% of participant compensation. Contribution expense for the years ended June 30, 2013 and 2012 were $199,087 and $177,200, respectively.

## NOTE H-- OPERATING LEASES

The Partnership leases office space and office equipment under several operating leases, which expire at various dates through July 2017. Future minimum lease payments are as follows for the years ending June 30:

| | |
|---|---|
| 2014 | $ 128,457 |
| 2015 | 137,611 |
| 2016 | 69,872 |
| 2017 | 23,292 |
| Total | $ 359,232 |

Lease expense for the years ended June 30, 2013 and 2012, totaled $93,960 and $52,362, respectively.

During 2002, the Partnership entered into a lease for office space that allows for leasehold improvements to be made in lieu of payments. These improvements, of approximately $167,000, have been capitalized and are being depreciated over the 10-year term of the lease. Depreciation expense relating to these leasehold improvements was $6,952 and was fully depreciated for the year ended June 30, 2012. The lease was not renewed upon expiration of the term.

## NOTE I -- ECONOMIC DEPENDENCY

During the years ended June 30, 2013 and 2012, the Partnership received approximately 47% of total revenue from various federal and state grants, respectively. While it is anticipated that funding will continue for several more years, a significant reduction in the level of support, if it were to occur, could have a material effect on the Partnership's programs and activities.

## NOTE J-- RELATED PARTIES

The Partnership's board of directors consists of local manufacturers, representatives from various state agencies and representatives from Clemson University and the University of South Carolina. The following related party transactions occurred between the Partnership and its board members for the years ended June 30:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Nature of Service | | | | |
| Project revenue | $ | 44,817 | $ | 53,441 |
| Professional fees | | 9,000 | | 0 |
| Subaward agreements | | 179,593 | | 365,000 |
| TOTAL | $ | 233,410 | $ | 418,441 |

On October 21, 2011 the Partnership created a wholly-owned for-profit entity, Transform, Inc., to invest in small and medium sized manufacturers in the State of South Carolina. There has been no activity, thus far, other than organizational costs. The investment in Transform as of June 30, 2013 is $35,000.

# GOVERNMENTAL AUDITING SECTION

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# INDEPENDENT AUDITORS' 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 of
South Carolina Manufacturing Extension Partnership

We have audited 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, the financial statements of South Carolina Manufacturing Extension Partnership (the "*Partnership*"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 24, 2013.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Partnership'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*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina
October 24, 2013

The Hobbs Group, P.A.

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To The Board of Directors of
South Carolina Manufacturing Extension Partnership

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited South Carolina Manufacturing Extension Partnership's (the "*Partnership*") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Partnership's major federal programs for the year ended June 30, 2013. The Partnership's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

## MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Partnership's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Partnership'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Partnership's compliance.


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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Partnership complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Partnership is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Partnership's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Partnership's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133.Accordingly, this report is not suitable for any other purpose.

Columbia, South Carolina
October 24, 2013

The Holler Group, P.A.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*
For the Year Ended June 30, 2013

| Federal Grantor / Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures |
|---|---|---|---|
| Direct Programs: | | | |
| U.S. Department of Commerce | | | |
| U.S. Department of Commerce National Institute of Standards And Technology Standards and Technology - MEP Cooperative Agreement | 11.611 | | $ 2,184,489 |
| U.S. Department of Commerce National Institute of Standards And Technology Standards and Technology - MEP Environmental Protection Agnecy's E3 Initiative | 11.611 | | 4,670 |
| South Carolina Suppliers Scouting Requirements from Veteran Affairs | 11.611 | | 63,033 |
| U.S. Department of Agriculture | | | |
| Rural Business Enterprise Grant | 10.783 | | 20,846 |
| Rural Business Enterprise Grant - ARRA | 10.783A | | 30,728 |
| Technical Assistance and Training | 10.761 | | 65,480 |
| | | Total Direct Programs | 2,369,246 |
| Pass-Through Programs: | | | |
| U.S. Department of Commerce | | | |
| U.S. Department of Commerce National Institute of Standards And Technology Illinois Manufacturing Extension Center Supply Chain Service Department | 11.611 | 70NANB10H315 | 105,123 |
| U.S. Department of Energy | | | |
| South Carolina Energy Office Save Energy Now | 81.119 | 31001 | 205,291 |
| | | Total Pass-Through Programs | 310,414 |
| | | TOTAL EXPENDITURES OF FEDERAL AWARDS | $ 2,679,660 |

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*
June 30, 2013

## NOTE A --BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Carolina Manufacturing Extension Partnership and is presented on the accrual basis of accounting, which is described in note A of the Partnership's financial statements. 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 the schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

## NOTE B -- NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY GRANT

The National Institute of Standards and Technology (NIST) cooperative agreement is awarded to the South Carolina Manufacturing Extension Partnership. The Partnership partners with the following colleges and organizations to provide services: Clemson Research Apparel (Clemson University), The University of South Carolina's Center for Manufacturing and Technology, and South Carolina Export Consortium. This agreement requires non-federal matching of 66.7% to the federal 33.3% share.

The Partnership provided federal awards to NIST sub-recipients during the year ended June 30, 2013 as follows:

| | | |
|---|---|---|
| Clemson Research Apparel | $ | 79,593 |
| Center for Manufacturing and Technology | | 200,000 |
| South Carolina Export Consortium | | 49,128 |
| | $ | 328,721 |

The sub-recipient non-federal matching funds as of June 30, 2013 consisted of $506,993 cash match and $118,092 in-kind match.

## NOTE C -- UNITED STATES DEPARTMENT OF AGRICULTURE – RURAL DEVELOPMENT

The United States Department of Agricultures' Rural Development Office awarded two rural business development grants to the South Carolina Manufacturing Extension Partnership, in which the Partnership has partnered with the South Carolina Export Consortium. For the fiscal year ended June 30, 2013, the Partnership provided federal funds to the South Export Consortium in the amount of $51,574.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
*SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP*
Year Ended June 30, 2013

## SECTION I -- SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of South Carolina Manufacturing Extension Partnership.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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*.

3. No instances of noncompliance material to the financial statements of South Carolina Manufacturing Extension Partnership, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award program is reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.

5. The auditors' report on compliance for the major federal award program for South Carolina Manufacturing Extension Partnership expresses an unmodified opinion on the major program.

6. Audit findings that are required to be reported in accordance with Section 501(a) of OMB Circular A-133 are reported in this schedule.

7. The program tested as a major program was:

   National Institute of Standards and Technology Grant 11.611

8. The threshold used for distinguishing between Types A and B programs was $300,000.

9. South Carolina Manufacturing Extension Partnership qualifies as a low risk auditee.

## SECTION II -- FINDINGS -FINANCIAL STATEMENT AUDIT

None

## SECTION III --FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS

None

## SECTION IV -- SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

None