

During fiscal year 2012-13, the South Carolina Department of Commerce (Commerce) was appropriated \$682,049 designated for the SC Manufacturing Extension Partnership (SCMEP) in accordance with Proviso 40.19 of the Fiscal Year 2012-13 Appropriation Act. In addition, the proviso requires Commerce to prepare a report of the prior year expenditures for the SCMEP.

The Commerce and SCMEP has 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 competitiveness and potentialities of small and medium size manufacturers in the State.

In addition, Commerce and SCMEP has 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 the Commerce and the company through one-on-one visits. From January 2013 to June 2013, eighty-six visits were conducted by SCMEP's field agents.

During the visit, information on the programs of Commerce will be 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

It is our belief that these visits have increased our on-going relationships with the industrial base of South Carolina.

SCMEP has provided Commerce with their 2012 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.

Helping South Carolina Companies Grow



2012 Annual Impact = \$234.8 million

Reported by SCMEP's Manufacturing Clients

New and Retained Sales
\$170 million

New Product Sales
\$14.1 million

Capital Investment
\$50.4 million

Jobs Created or Retained
1792

Cost Savings
\$14.4 million

Manufacturers Served, 261
New Clients Served, 91



A few highlights include:

SC TOOL

"I knew we had to do something different or we would not be around for much longer. I turned to the SCMEP and SC Works, who have helped us with business improvement programs in the past. We decided that our best opportunity was to expand into new markets and needed a system to ensure success. We were patient and committed to the growth plan. That was the key. With the help of SCMEP, SC Works and our dedicated team we were able to reach our goals."

- Jody McRoberts, Owner

AXIOM CEMS, LLC

"Everyone at SCMEP was very helpful, friendly, and knowledgeable. SCMEP is truly there to help businesses succeed. We will certainly look to SCMEP in the future for other projects and would absolutely recommend SCMEP's services to others."

- Bob Johnson, Operations Manager

LOXCREEN

"We anticipate the work with SCMEP will pay dividends in 2013 as we continue to pursue new opportunities and leverage our unique fabrication capabilities. We are well- positioned for a great year."

- Rick Wheeler, VP

RESULTS:

- **RETAINED 9 JOBS**
- **CREATED 7 JOBS**
- **RETAILED SALES \$609,000**
- **INCREASED SALES \$600,000**
- **CAPITAL INVESTMENTS \$1,200,000**
- **COST SAVINGS 15%**

RESULTS:

- **OBTAINED ISO 9001 CERTIFICATION**
- **DOUBLED ANNUAL SALES**
- **RETAINED 10 JOBS**
- **CREATED 32 NEW JOBS**

RESULTS:

- **RETAINED 34 JOBS**
- **RETAINED \$3 MILLION IN SALES**

SCMEP Management Team



John Irion
CEO / President



Chuck Spangler
COO

SCMEP

SOUTH CAROLINA
MANUFACTURING
EXTENSION
PARTNERSHIP

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

Headquarters

1301 Gervais Street, Suite 910
Columbia, SC 29201
(803) 252-6976 Phone
(803) 254-8512 Fax

25 Woods Lake Road
Building #7, Suite #714
Greenville, SC 29607
(800) 637-4634 Phone

BOARD OF DIRECTORS

***Mr. John M. Meister**
(Retired-WABCO)
864-281-0972
johnmarkmeister@att.net

****Mr. William "Bill" Engle**
Stark RFID
864-232-9773 (work)
wbengle@starkrfid.com

Mr. Greg Butler
Pure Power Technologies
803-556-7929
greg.butler@purepowertechnologies.com

Mr. States Clawson
South Carolina Department of Commerce
803-737-0430 (work)
sclawson@sccommerce.com

Dr. Ben P. Dillard, III
New Business Development
Recruiting Solutions/RS Healthcare
864-234-0072 (work)
864-297-3988 (fax)
bdillard@recruitingsolutionsonline.com

Mr. Dean Garritson, President
Green Rivers Cabins
864-457-2444 (work)
864-457-2484 (fax)
Dgarritson@greenrivercabins.com

Mr. Robert Hurst, Jr., President,
Phoenix Specialty Manufacturing Co.
803-245-6839 (work)
803-245-4881 (fax)
rhurst@phoenixspecialty.com

Ms. Gail Shurling
Center for Manufacturing and Technology
University of South Carolina
803-467-5907 (work)
shurling@mailbox.sc.edu

Mr. Gerald Sonnenfeld, Ph.D.
Vice President for Research
Clemson University
864-656-7701 (work)
864-656-7700 (fax)
sonneng@clemson.edu

Dr. Darrel W. Staat, System President
SC Technical College System
803-896-5280 (work)
803-896-5281 (fax)
staatd@sctechsystem.edu

Ms. Rebecca A. Ufkes, President
UEC Electronics, LLC
843-266-3527 (work)
843-552-7452 (fax)
rebeccaufkes@uec-electronics.com

*****Dan Lilley**, NIST MEP Account Manager
240-418-3003 (work)
dlilley@nist.gov

* Chairman
** Secretary/Treasurer
*** NIST Representative (non-voting)

AUDITED FINANCIAL STATEMENTS

*SOUTH CAROLINA MANUFACTURING
EXTENSION PARTNERSHIP*

June 30, 2013

TABLE OF CONTENTS
 SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP
 June 30, 2013

Independent Auditors' Report 1

AUDITED FINANCIAL STATEMENTS

Statements of Financial Position 3
 Statements of Activities 4
 Statement of Functional Expenses for the year ended June 30, 2013 5
 Statement of Functional Expenses for the year ended June 30, 2012 6
 Statements of Cash Flows 7
 Notes to the Financial Statements 8

GOVERNMENTAL AUDITING SECTION

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* 17
 Independent Auditor's Report on Compliance with Requirements That Could Have a
 Direct and Material Effect on Each Major Program and on Internal Control over
 Compliance in Accordance with OMB Circular A-133 19
 Schedule of Expenditures of Federal Awards 21
 Notes to the Schedule of Federal Expenditures..... 22
 Schedule of Findings and Questioned Costs 23
 Schedule of Prior Audit Findings 23

1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202



Phone (803) 799-0555
Fax (803) 799-4212

www.hobbsepa.com

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.

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 Halle Group, P.A.

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
 SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

	June 30,	
	2013	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	<u>3,066,831</u>	<u>3,487,812</u>
Noncurrent Assets		
Note receivable	6,872	33,131
Property and equipment, net	148,425	70,530
Total Noncurrent Assets	<u>155,297</u>	<u>103,661</u>
TOTAL ASSETS	<u>\$ 3,222,128</u>	<u>\$ 3,591,473</u>
 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	<u>533,825</u>	<u>744,435</u>
Net Assets		
Unrestricted	<u>2,688,303</u>	<u>2,847,038</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,222,128</u>	<u>\$ 3,591,473</u>

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	<u>7,164,003</u>	<u>8,027,704</u>
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	<u>7,322,738</u>	<u>8,100,621</u>
CHANGE IN NET ASSETS	(158,735)	(72,917)
 Net assets at beginning of year	 <u>2,847,038</u>	 <u>2,919,955</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,688,303</u>	<u>\$ 2,847,038</u>

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

	Supporting Services			Total Expenses
	Program Service	Management and General	Fundraising	
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 I 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	<u>6,256,350</u>	<u>1,024,064</u>	\$ 0	<u>7,280,414</u>
Depreciation	<u>10,581</u>	<u>31,743</u>		<u>42,324</u>
TOTAL EXPENSES	<u><u>\$ 6,266,931</u></u>	<u><u>\$ 1,055,807</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,322,738</u></u>

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

	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising</u>	
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	<u>6,939,378</u>	<u>1,118,882</u>	<u>11,272</u>	<u>8,069,532</u>
Depreciation	<u>7,772</u>	<u>23,317</u>		<u>31,089</u>
TOTAL EXPENSES	<u><u>\$ 6,947,150</u></u>	<u><u>\$ 1,142,199</u></u>	<u><u>\$ 11,272</u></u>	<u><u>\$ 8,100,621</u></u>

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	<u>(254,050)</u>	<u>(126,198)</u>
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	<u>42,181</u>	<u>223,849</u>
CHANGE IN CASH	(211,869)	97,651
Cash at beginning of year	<u>412,156</u>	<u>314,505</u>
CASH AT END OF YEAR	<u>\$ 200,287</u>	<u>\$ 412,156</u>

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

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP
June 30, 2013

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 as of June 30, 2013 or 2012.

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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.

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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.

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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.

NOTES TO THE FINANCIAL STATEMENTS
 SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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 depreciation	(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

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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.

NOTES TO THE FINANCIAL STATEMENTS
 SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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

NOTES TO THE FINANCIAL STATEMENTS
 SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

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	<u>\$ 672,156</u>	<u>\$ 415,904</u>

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	<u>\$ 359,232</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP

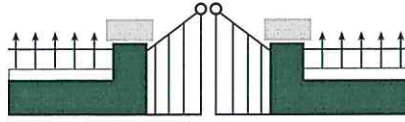
NOTE J-- RELATED PARTIES

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:

Nature of Service	<u>2013</u>	<u>2012</u>
Project revenue	\$ 44,817	\$ 53,441
Professional fees	9,000	0
Subaward agreements	179,593	365,000
TOTAL	<u>\$ 233,410</u>	<u>\$ 418,441</u>

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



1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202

TheHobbsGroup
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS, PA

Phone (803) 799-0555
Fax (803) 799-4212

www.hobbsepa.com

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.

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 Holla Group, P.A.

1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202



Phone (803) 799-0555
Fax (803) 799-4212

www.hobbsscpa.com

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.

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 Halls 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 Agency'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		<u>65,480</u>
		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	<u>205,291</u>
		Total Pass-Through Programs	<u>310,414</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,679,660</u></u>

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
	\$	<u>328,721</u>

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 Agriculture's 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