



**SPACE FLORIDA
(A COMPONENT UNIT OF
THE STATE OF FLORIDA)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

SPACE FLORIDA

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June 30, 2011 and 2010

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Hoyman Dobson

Independent Auditors' Report

The Board of Directors
Space Florida
Cape Canaveral, Florida

We have audited the accompanying basic financial statements of Space Florida as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Space Florida's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Space Florida as of June 30, 2011 and 2010 and the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of Space Florida'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* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

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Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Space Florida's basic financial statements. The schedule of travel, entertainment and incidental expenses on page 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

The accompanying schedule of expenditures of state financial assistance on page 39 is presented for purposes of additional analysis as required by Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Hoyman Dobson". The signature is written in a cursive style. To the right of the signature is a vertical yellow line.

Hoyman Dobson
Melbourne, Florida
September 29, 2011

Management's Discussion and Analysis

As management of Space Florida, we offer readers of Space Florida's financial statements this narrative overview and analysis of the financial activities of Space Florida for the years ended June 30, 2011 and 2010.

Effective September 1, 2006, Pursuant to Chapter 2006-60, Laws of Florida, a law enacted by the Florida Legislature during its 2006 Regular Session, Space Florida was created as an independent special district and subdivision of the State. Space Florida serves as the State's principal government space agency, responsible for space-related infrastructure development, industry recruitment, and education/research in partnership with federal agencies and private industry; for providing leadership for development of space transportation infrastructure; and for implementation of space commercialization and development programs.

Space Florida utilizes funds to operate programs that retain, attract, and expand new business to Florida, and to promote Florida as the world's premier space business destination. Space Florida is responsible for accelerating the growth of space-related economic development and supports Florida's economic goals through targeted space business retention, expansion, and diversification efforts in addition to promoting innovative educational, research and development and workforce development programs and space related infrastructure development projects.

As a result of the dynamic nature of Florida's space industry and the retirement of NASA's Space Shuttle program, Space Florida has developed a strategic plan ("Vision 2020") that targets a number of diversified commercial market segments for integration of space technology that has not been previously pursued with a focused state effort. These markets receive direct benefit through utilization of the current space program, or have shown great interest in the potential for benefitting from opportunities in next-generation space initiatives. Space Florida has already gained significant interest from major players in these markets, and will continue to increase its efforts to attract and secure these businesses. It will do this, in part, by focusing staff efforts on business development opportunities in these emerging sectors, with the goal of tripling the size of the space industry and its economic impact in Florida by 2020.

Financial Highlights

- The assets of Space Florida exceeded its liabilities for the years ended June 30, 2011 and 2010 by \$82,886,194 and \$70,941,436 (net assets), respectively. Of this amount, \$12,048,482 and \$3,156,178 (unrestricted net assets), respectively, may be used to meet Space Florida's ongoing obligations to citizens and creditors.
- Space Florida's total net assets increased by \$11,944,758 for the year ended June 30, 2011 and decreased by \$3,408,039 for the year ended June 30, 2010. For the year ended June 30, 2011 the increase was primarily due to state appropriations received for targeted business development support services and business recruitment, financing, workforce retention and capital improvement projects. For the year ended June 30, 2010 the decrease in net assets consisted of a \$2,681,442 net loss from operations and \$715,227 of non-operating expenses related to a receivable booked as of June 30, 2009 that was subsequently denied for payment due to a change in the interpretation of contract payment terms and the amount was applied against the initial funding draw on the contract.
- For the years ended June 30, 2011 and 2010, unrestricted net assets were 87 percent and 34 percent, respectively, of total operating expenditures.
- Space Florida's state appropriated revenue for operations for fiscal year 2011 and 2010 was \$3,839,943.
- Space Florida received appropriated revenue for fiscal year 2011 in the amount of \$16,200,000 for targeted space business retention, expansion, and diversification efforts; innovative educational, research and development and workforce development programs; and space related infrastructure development projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Space Florida's basic financial statements. Space Florida's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements report information using the full accrual accounting methods as utilized by similar business activities in the public sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The statement of net assets presents information on all of Space Florida's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as an indicator of the financial status of Space Florida.

The statement of revenues, expenses, and changes in fund net assets presents information showing how Space Florida's net assets changed for the years ended June 30, 2011 and 2010. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The basic financial statements can be found on pages 12-16 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and thus are an integral part of these financial statements. The notes to the financial statements can be found on pages 17-27 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 31 and 39 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial status. Assets exceeded liabilities as of June 30, 2011 and 2010 by \$82,886,194 and \$70,941,436, respectively.

The following table reflects the condensed statement of net assets.

Space Florida Net Assets

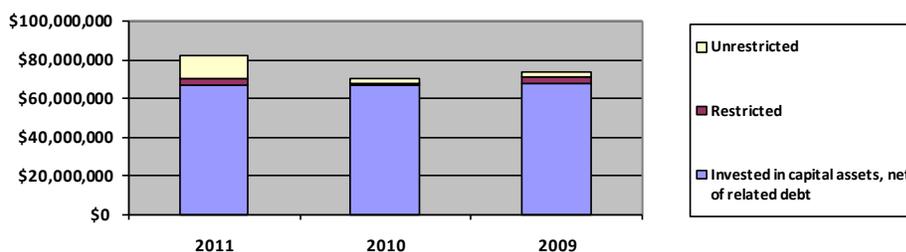
	2011	2010	2009
Cash	\$ 6,481,948	\$ 2,395,173	\$ 3,802,843
Receivables	6,806,910	1,168,299	3,303,438
Investments	3,196,600	-	-
Other current assets	492,656	246,885	167,858
Capital assets	67,548,759	66,997,610	67,882,586
Other assets	766,744	716,496	1,068,029
Total assets	85,293,617	71,524,463	76,224,754
Liabilities	2,407,423	583,027	1,875,279
Total liabilities	2,407,423	583,027	1,875,279
Net assets:			
Invested in capital assets, net of related debt	67,548,759	66,997,610	67,882,586
Restricted	3,288,953	787,648	3,326,007
Unrestricted	12,048,482	3,156,178	3,140,882
Total net assets	\$ 82,886,194	\$ 70,941,436	\$ 74,349,475

The largest portion of Space Florida net assets as of June 30, 2011 (81 percent) and as of June 30, 2010 (94 percent) reflects its investment in capital assets (e.g., buildings, equipment, and construction in progress), less any related debt used to acquire those assets that are still outstanding. Although Space Florida's investment in its capital assets is reported net of related debt above, Space Florida has no outstanding debt. If such debt existed, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Space Florida net assets as of June 30, 2011 (4 percent) and as of June 30, 2010 (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet Space Florida's ongoing obligations.

As of June 30, 2011 and 2010, Space Florida was able to report positive balances in all three categories of net assets.

Net Assets



The following table shows condensed revenue and expense data:

Space Florida Changes in Net Assets

	2011	2010	2009
Operating revenues:			
Fees and charges for services	\$ 2,670,769	\$ 2,806,006	\$ 3,174,973
State appropriated funding	20,039,943	3,839,943	3,839,943
Other grant revenue	383,590	-	466,406
Total operating revenue	<u>23,094,302</u>	<u>6,645,949</u>	<u>7,481,322</u>
Non-operating revenues:			
Other grant revenue	2,708,537	-	11,395,759
Other	11,105	2,151	16,761
Total non-operating revenues	<u>2,719,642</u>	<u>2,151</u>	<u>11,412,520</u>
Total revenues	<u>25,813,944</u>	<u>6,648,100</u>	<u>18,893,842</u>
Operating expenses:			
Business development activities	5,023,449	1,857,183	2,622,822
Educational research development and workforce activities	1,266,058	973,053	* 1,478,641
Operations	3,610,245	3,311,631	* 4,243,293
General, administrative and depreciation	3,953,274	3,185,524	* 2,565,892
Total operating expenses	<u>13,853,026</u>	<u>9,327,391</u>	<u>10,910,648</u>
Non-operating expenses:			
Total non-operating expenses	<u>16,160</u>	<u>728,748</u>	<u>-</u>
Total expenses	<u>13,869,186</u>	<u>10,056,139</u>	<u>10,910,648</u>
Change in net assets	11,944,758	(3,408,039)	7,983,194
Net assets – beginning	70,941,436	74,349,475	66,366,281
Net assets – ending	<u>\$ 82,886,194</u>	<u>\$ 70,941,436</u>	<u>\$ 74,349,475</u>

(*) Amounts have been reclassified to conform to the 2010 presentation.

Changes in Net Assets. The net assets balance increased \$11,944,758 and decreased \$3,408,039 for the years ended June 30, 2011 and 2010, respectively. For the year ended June 30, 2011, the increase in net assets consisted of a \$9,241,276 net gain from operations and \$2,703,482 in net non-operating revenues that included \$2,708,537 in other grant revenue and \$11,105 in interest income, less \$16,160 due to a loss on the disposal of fixed assets. For the year ended June 30, 2010, the decrease in net assets consisted of a \$2,681,442 net loss from operations, \$715,227 of non-operating expenses related to a receivable booked on June 30, 2009 that was subsequently denied for payment due to a change in the interpretation of contract payment terms and the amount was applied against the initial funding draw on the contract, with the remainder due to a loss on the disposal of fixed assets offset by interest income.

Operating revenues totaled \$23,094,302 and \$6,645,949 for the years ended June 30, 2011 and 2010, respectively, and were primarily provided by State appropriated funding (87 and 58 percent of total operating revenues, respectively), with the remaining being generated from fees, charges for service and other grant revenues. In addition, Space Florida reported non-operating revenues of \$2,719,642 and \$2,151 for the years ended June 30, 2011 and 2010, respectively. Non-operating revenues in 2011 consisted primarily of other grant revenues received for a particular capital improvement project and in 2010 consisted of interest income.

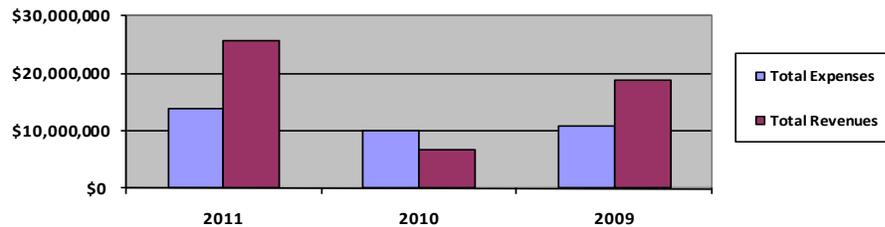
Operating expenses were \$13,853,026 for the year ended June 30, 2011 and \$9,327,391 for the year ended June 30, 2010. Of those totals, 26 percent and 36 percent, respectively, related to general operations, which consist of support for the execution of Space Florida’s responsibilities as a state-created entity, facilities management and policy-related responsibilities. In addition, and related to ownership and management of the operation and its facilities, depreciation totaled \$3,130,515 and \$2,478,673 for the years ended June 30, 2011 and 2010, respectively.

Space Florida’s strategic goal is to operate as a high performance public sector organization by tripling the size of the space industry and its economic impact in Florida by 2020. In addition, an important element of Space Florida’s mission is to promote federal and state policies that increase space enterprise within the State.

As directed by statute, Space Florida is also responsible for fostering the growth and development of a sustainable and world-leading aerospace industry in the State and thus is responsible for accelerating the growth and diversification of aerospace-related economic development throughout the State. Space Florida is partnering with other State entities such as Enterprise Florida to accomplish these directives. During the period of June 30, 2011 and June 30, 2010 Space Florida expended 36 percent and 20 percent, respectively, of its operating expenditures to create and direct activities and programs that retain, attract and help expand aerospace businesses in Florida.

Lastly, 9 and 10 percent, respectively was expended on innovative educational, research and development, and workforce development projects for the years ended June 30, 2011 and 2010. Space Florida’s Education Programs offers students and teachers a wide range of innovative, inquiry-based and hands-on educational programs and workshops intended for all levels of students and researchers. Using space as a theme for learning, Space Florida sponsored programs enabling participants to develop relationships with key industry partners and enabling these students to solve real world science challenges. We continue to invest in R&D programs that advance the State’s goals of attracting higher quality proposals and expand program impact throughout the State. Education, R&D and Workforce programs work together to pursue development of strategies that best leverage Florida’s aerospace assets.

Total Revenues and Expenses



Capital Asset and Debt Administration

Capital assets. Space Florida’s investment in capital assets as of June 30, 2011 and 2010, amounted to \$67,548,759 and \$66,997,610 (net of accumulated depreciation), respectively. This investment in capital assets includes buildings, improvements, construction in progress and equipment. Construction in progress as of June 30, 2011 primarily consisted of capital improvements to Exploration Park and Launch Complex 36. Construction in progress as of June 30, 2010 consisted of capital improvements and equipment associated with the development of Launch Complex 36.

Space Florida Capital Assets
(net of depreciation)

	2011	2010	2009
SRMU storage facility	\$ 6,485,461	\$ 6,908,327	\$ 7,310,949
RLV hangar and office space	2,946,328	3,360,091	3,773,255
Orion facility	30,256,789	31,481,160	-
Space Life Sciences Lab	20,899,186	21,929,600	22,875,754
Furniture, equipment and vehicles	448,816	439,646	434,929
Construction in progress	6,512,179	2,878,786	33,487,699
Total	\$ 67,548,759	\$ 66,997,610	\$ 67,882,586

Additional information on Space Florida capital assets can be found in Note 5 on pages 21 to 22 of this report.

Space Florida entered into agreements to purchase prototypes from third parties to test the technology and capabilities of the prototype. Upon completion of the testing period Space Florida would lease back the prototype for a nominal lease rate. At the end of the lease the prototype could be purchased for a nominal value by the third party. As consideration for the lease and option to purchase the third party would issue ownership interest in the third party through common stock and/or warrants.

Space Florida also entered in to an agreement with a third party to purchase three production vehicles. Upon completion of the production of the vehicles Space Florida would lease back the prototype for a nominal lease rate. At the end of the lease the prototype could be purchased for a nominal value by the third party. As consideration for the lease and option to purchase the third party would issue ownership interest in the third party through common stock and/or warrants. Additional information can be found in Note 12 on page 26 of this report.

Space Florida has agreements with the Cape Canaveral Air Force Station Center for the right to use Space Launch Complexes 36 and 46 for the development of multi-use vertical launch capabilities related to governmental, educational and commercial initiatives. Space Florida also has an enhanced use lease agreement with NASA John F. Kennedy Space Center for 60 acres with an optional 139 additional acres to develop a mixed-use multi-tenant technology and commerce park referred to as “Exploration Park.”

Requests for Information

This financial report is designed to provide a general overview of Space Florida’s finances for all those with an interest in Space Florida’s financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Space Florida, SPFL, Building M6-306, Room 9030, Kennedy Space Center, Florida, 32899.

BASIC FINANCIAL STATEMENTS

SPACE FLORIDA

Statements of Net Assets

June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current assets		
Cash:		
Unrestricted	\$ 1,473,745	\$ 1,552,571
Restricted	5,008,203	842,602
Accounts receivable, net of allowance for uncollectible accounts of \$50,000 at June 30, 2011 and 2010,	227,092	72,659
Due from other governments:		
Unrestricted	6,579,818	998,640
Investments	3,196,600	-
Loans receivable, current	-	97,000
Other current assets	492,656	246,885
Total current assets	<u>16,978,114</u>	<u>3,810,357</u>
Noncurrent assets		
Capital assets (net of accumulated depreciation):		
SRMU storage facility	6,485,461	6,908,327
Orion facility	30,256,789	31,481,160
Reusable Launch Vehicle (RLV) hangar and office space	2,946,328	3,360,091
Space Life Sciences Lab	20,899,186	21,929,600
Furniture, equipment and vehicles	448,816	439,646
Construction in progress	6,512,179	2,878,786
Loans receivable, less current portion	725,848	-
Other noncurrent assets	40,896	716,496
Total noncurrent assets	<u>68,315,503</u>	<u>67,714,106</u>
Total assets	<u>85,293,617</u>	<u>71,524,463</u>

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Statements of Net Assets (continued)

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current liabilities		
Accounts payable	355,100	291,146
Accrued expenses	-	589
Salaries payable	114,813	31,486
Deferred revenue	115,501	117,781
Accrued retirement payable	438	265
Compensated absences, current portion	55,026	50,198
Payable from restricted assets:		
Accounts payable	1,719,250	54,954
Total current liabilities	<u>2,360,128</u>	<u>546,419</u>
Noncurrent liabilities		
Compensated absences, long-term portion	47,295	36,608
Total noncurrent liabilities	<u>47,295</u>	<u>36,608</u>
Total liabilities	<u>2,407,423</u>	<u>583,027</u>
NET ASSETS		
Invested in capital assets	67,548,759	66,997,610
Restricted for:		
Special purpose	3,288,953	787,648
Unrestricted	12,048,482	3,156,178
Total net assets	<u>\$ 82,886,194</u>	<u>\$ 70,941,436</u>

SPACE FLORIDA

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2011 and 2010

	2011	2010
Operating revenues		
Fees and charges for services	\$ 2,670,769	\$ 2,806,006
State appropriated funding	20,039,943	3,839,943
Federal grant revenue	383,590	-
Total operating revenues	<u>23,094,302</u>	<u>6,645,949</u>
Operating expenses		
Business development activities	5,023,449	1,857,183
Educational research development and workforce activities	1,266,058	973,053
Operations	3,610,245	3,311,631
General and administrative	822,759	706,851
Depreciation	3,130,515	2,478,673
Total operating expenses	<u>13,853,026</u>	<u>9,327,391</u>
Income (loss) from operations	<u>9,241,276</u>	<u>(2,681,442)</u>
Non-operating revenues (expenses)		
Interest income	11,105	2,151
Other grant revenue	2,708,537	-
Other expense (see Note 3)	-	(715,227)
Loss on disposal of capital assets	(16,160)	(13,521)
Total non-operating revenues (expenses)	<u>2,703,482</u>	<u>(726,597)</u>
Change in net assets	11,944,758	(3,408,039)
Net assets, beginning of year	<u>70,941,436</u>	<u>74,349,475</u>
Net assets, end of year	<u>\$ 82,886,194</u>	<u>\$ 70,941,436</u>

SPACE FLORIDA

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers and users	\$ 2,514,056	\$ 2,910,348
Cash paid to suppliers for goods and services	(7,630,583)	(3,856,270)
Cash payments to employees for services	(2,499,719)	(2,574,591)
Loans issued	(628,848)	(97,000)
Operating grant receipts	14,842,355	4,681,246
Net cash provided by operating activities	<u>6,597,261</u>	<u>1,063,733</u>
Cash flows from capital and related financing activities:		
Capital related grant receipts	2,708,537	573,547
Purchase and construction of capital assets	(5,230,128)	(3,047,101)
Net cash used in capital and related financing activities	<u>(2,521,591)</u>	<u>(2,473,554)</u>
Cash flows from investing activities:		
Interest received	11,105	2,151
Net cash provided by investing activities	<u>11,105</u>	<u>2,151</u>
Net increase (decrease) in cash	4,086,775	(1,407,670)
Cash, beginning of year	<u>2,395,173</u>	<u>3,802,843</u>
Cash, end of year	<u>\$ 6,481,948</u>	<u>\$ 2,395,173</u>

Cash for the purposes of this statement consists of the following at June 30, 2011 and 2010:

Cash	\$ 1,473,745	\$ 1,552,571
Restricted cash	5,008,203	842,602
Total cash	<u>\$ 6,481,948</u>	<u>\$ 2,395,173</u>

SUMMARY OF NON-CASH OPERATING ACTIVITIES

Purchase of common stock and warrants	\$ (3,196,600)	-
Entered into capital lease receivables	(3,400)	-
Trade in of fixed assets	3,200,000	-
Net cash effect	<u>\$ -</u>	<u>-</u>

SPACE FLORIDA

Statements of Cash Flows (continued)

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	<u>\$ 9,241,276</u>	<u>\$ (2,681,442)</u>
Adjustment to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation expense	3,130,515	2,478,673
Educational expense related to rocket launches	675,600	351,533
Bad debt expense	311,078	50,000
(Increase) decrease in assets:		
Accounts receivable	(465,511)	52,062
Due from other governments	(5,581,178)	841,303
Loans receivable	(628,848)	(97,000)
Other current assets	(245,771)	(79,027)
Increase (decrease) in liabilities:		
Accounts payable	63,954	121,450
Accrued expenses	(589)	(242)
Accrued compensated absences	15,515	18,953
Salaries payable	83,327	12,986
Deferred revenue	(2,280)	2,280
Accrued retirement payable	173	(7,796)
Total adjustments	<u>(2,644,015)</u>	<u>3,745,175</u>
Net cash provided by operating activities	<u><u>\$ 6,597,261</u></u>	<u><u>\$ 1,063,733</u></u>

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY – Space Florida is an independent special district, a body politic and corporate, and subdivision of the State of Florida, which was created pursuant to the Space Florida Act, Sections 331.301-331.369, Florida Statutes, as amended. Space Florida's purpose is to foster the growth and development of a sustainable and world-leading aerospace industry in the State of Florida. Space Florida accomplishes its purpose by promoting aerospace business development, facilitating business financing, spaceport operations, research and development, workforce development, and innovative education programs. Space Florida is not considered an "agency" of the State for budgeting, as defined in Florida Statutes 216.011 and 287.012.

The governing body of Space Florida consists of a Board of Directors with twelve voting members appointed by the Governor, five statutorily designated voting members and two ex-officio, nonvoting members. One of the ex-officio members is appointed by the President of the Senate and must be a member of the Senate, and the other ex-officio member is appointed by the Speaker of the House of Representatives and must be a member of the House of Representatives.

The 2010 Florida Legislature passed House Bill 451, which changed the structure of the governing body of Space Florida. Effective August 2010, the Board of Directors is comprised of nine voting members appointed by the Governor, four statutorily designated voting members, and two ex-officio, nonvoting members. One of the ex-officio members is appointed by the President of the Senate and must be a member of the Senate, and the other ex-officio member is appointed by the Speaker of the House of Representatives and must be a member of the House of Representatives. As of June 30, 2011, no board members had been appointed.

The Board of Directors accomplishes its oversight of Space Florida through its appointment of a President who implements the policies and directives of the Board of Directors. The President is responsible for the management of the operations of Space Florida.

Space Florida has the authority to purchase or construct facilities, to set rates, fees and charges for the use of facilities and to undertake joint financing with municipalities or private sector entities for projects. Space Florida also has the power to issue bonds and other instruments of indebtedness. The full faith and credit of the State of Florida does not secure any bonds issued by Space Florida.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION – Space Florida's financial statements are reported using the economic resources measurement focus, which is concerned with the inflow and outflow of resources that effect an entity. The Statement of Net Assets reflects those resources available to meet current obligations and to be used in the delivery of goods and services in subsequent periods. The Statement of Revenues, Expenses and Changes in Net Assets summarize those resources received and those consumed during the current period. The fund distinguishes between operating and non-operating revenues and expenses. Operating revenues generally result from leases, administrative fees, and operating grants. Operating expenses include the costs for space business development activities, educational research development and workforce activities, operations, administrative expenses and depreciation. All revenues and expenses not meeting the definition of operating are reported as non-operating revenues and expenses.

Space Florida is applying all applicable GASB pronouncements and only FASB Statements and Interpretation, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Space Florida accounts for all of its activities within one enterprise fund.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES – The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Upon settlement, actual results may differ from those estimates.

CASH – Consists of cash on hand and demand deposits that are restricted and unrestricted.

ACCOUNTS RECEIVABLE – The receivables are funds due to Space Florida from customers. Space Florida does not charge interest on late payments. An allowance of \$50,000 is recorded based on management's estimate of collectability of outstanding accounts receivable balances.

INVESTMENTS – Investments are valued at cost as required by GASB 31. Space Florida is allowed to invest in common stock and warrants under Florida Statute 331.305.

OTHER CURRENT ASSETS – Consist of deposits and prepaid expenses.

RESTRICTED ASSETS – Consist primarily of cash received and unexpended in connection with specific State-funded projects.

CAPITAL ASSETS – Are defined as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost when purchased or at fair market value when donated. Additions, improvements and expenditures for repairs and maintenance that extend the lives of assets are capitalized. Other expenditures for repairs and maintenance are charged to expense as incurred. The carrying amount and accumulated depreciation of assets that are sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations.

Depreciation is provided using the straight-line method over the useful lives of the various classes of depreciable assets. The estimated useful lives of the property and equipment range from 1 to 27 years.

OTHER NONCURRENT ASSETS – Consist of donated Super Loki rockets stated at the lower of cost or market.

ACCRUED COMPENSATED ABSENCES – Space Florida's reporting of accrued compensated absences has been recorded in accordance with GASB Statement No. 16. A liability is accrued for an employee's right to receive compensation for future absences when certain conditions are met.

DEFERRED REVENUES – Include amounts collected before the revenue recognition criteria are met. The deferred items consist of refundable prepaid launch fees.

NET ASSETS – Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. At June 30, 2011 and 2010, restricted net assets consist primarily of cash received and unexpended in connection with specific State-funded projects. When both restricted and unrestricted resources are available for use, generally it is Space Florida's policy to use restricted resources first, then unrestricted resources as needed.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 2 – CASH AND INVESTMENTS

At June 30, 2011 and 2010, the carrying amount of Space Florida's deposits was \$6,481,948 and \$2,395,173, respectively, and the bank balance was \$8,115,100 and \$2,638,999, respectively. These deposits consist of interest and non-interest bearing demand accounts that are covered by federal depository insurance corporation (FDIC) up to \$250,000. Effective October 3, 2008, the federal government increased the FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2013. Effective July 21, 2010, the federal government made the temporary FDIC limit of up to \$250,000 per depositor permanent. Monies invested in amounts greater than FDIC limits are secured by collateral held by Space Florida's agent, pursuant to the Florida Security for Public Deposits Act (the "Act"). The Act requires that Space Florida maintain deposits only in "qualified public depositories." All qualified public depositories must deposit with the State Treasurer eligible collateral in such amounts as required by the Act. Should a default or insolvency occur, the State Treasurer would implement procedures for payment of losses according to the validated claims of Space Florida. Therefore, Space Florida's deposits are considered to be fully insured.

Florida Statute 331.309 authorizes Space Florida to select as a depository any qualified public depository as defined in Florida Statute 280.02. Space Florida may also deposit funds with the State Treasury.

Cash at June 30, 2011 and 2010, consists of the following:

	2011	2010
Demand deposits	\$ 6,481,948	\$ 2,395,173
Classified as:		
Cash	\$ 1,473,745	\$ 1,552,571
Restricted cash	5,008,203	842,602
	<u>\$ 6,481,948</u>	<u>\$ 2,395,173</u>

Credit risk

Florida Statute 331.348 authorizes Space Florida to invest in funds backed by the federal, and local governments, or any investment authorized in Florida Statute 17.57.

Interest rate risk

Space Florida's investment policy and Florida Statute do not limit the maturities of investments to reduce the interest rate risk.

Concentration of credit risk

Space Florida's investment policy and Florida Statute 331.348 does not limit the concentration of types of investments.

At June 30, 2011, Space Florida had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1-5 years	6-10 years	More than 10 years	
Common stock	\$ 749,650	\$ 749,650	\$ -	\$ -	\$ -	Not rated
Warrants	2,446,950	2,446,950	-	-	-	Not rated
	<u>\$ 3,196,600</u>	<u>\$ 3,196,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Due from other governments is comprised of \$6,579,818 and \$998,640 of State appropriations for operations at June 30, 2011 and 2010, respectively.

During July 2008, Space Florida entered into an infrastructure agreement with a State agency to receive up to \$14,500,000 of State appropriated funding for capital improvements related to the development of Launch Complex 36. The agreement provided for Space Florida to receive initial funding of \$2,112,331 with subsequent funding to be provided on a cost reimbursement basis. As of June 30, 2009, Space Florida recognized a balance due from other governments of \$715,227 related to project costs incurred during the fourth quarter of fiscal year 2009. Subsequent to June 30, 2009, the State agency notified Space Florida that its interpretation of the payment terms of the agreement had changed. The State agency denied the fourth quarter invoice and instead, applied the invoice against the initial funding. During 2010, the State Legislature expanded the purpose of the \$14,500,000 appropriation thus creating a new agreement. Accordingly, and in conjunction with the State's interpretation of the funding agreement described above, Space Florida determined in fiscal year 2010 that the June 30, 2009 balance due from other governments of \$715,227 would not be collected as initially intended. Included in the June 30, 2010 statement of revenues, expenses and changes in net assets, Space Florida recorded "other expense" in the same amount to remove the receivable.

NOTE 4 – LOANS RECEIVABLE

Space Florida entered into several loan agreements with a Company and loaned them a total of \$939,925 and \$97,000 during the years ended June 30, 2011 and 2010, respectively, and charged 1% interest. The loans are secured by collateral in an engine. As of June 30, 2011, the Company had not made any repayments on the loans, and Space Florida is working with the Company to extend the repayment terms. The expected terms of the new agreement make all of the loan receivable long-term. Due to the lack of payments on the loans receivable, Space Florida's management has estimated a portion of the receivable will most likely not be collected and has recorded an allowance of \$311,077.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	2011			
	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets, not being depreciated:				
Construction in progress	\$ 2,878,786	\$ 6,833,393	\$ (3,200,000)	\$ 6,512,179
Total capital assets not being depreciated	<u>2,878,786</u>	<u>6,833,393</u>	<u>(3,200,000)</u>	<u>6,512,179</u>
Capital assets, being depreciated:				
SRMU storage facility	8,541,951	4,969	-	8,546,920
RLV hangar and office space	4,696,984	-	-	4,696,984
Orion facility	32,032,069	-	-	32,032,069
Space Life Sciences Lab	25,463,414	-	-	25,463,414
Furniture, equipment and vehicles	863,776	3,259,462	(3,249,498)	873,740
Total capital assets being depreciated	<u>71,598,194</u>	<u>3,264,431</u>	<u>(3,249,498)</u>	<u>71,613,127</u>
Less accumulated depreciation for:				
SRMU storage facility	(1,633,624)	(427,835)	-	(2,061,459)
RLV hangar and office space	(1,336,893)	(413,763)	-	(1,750,656)
Orion facility	(550,909)	(1,224,371)	-	(1,775,280)
Space Life Sciences Lab	(3,533,814)	(1,030,414)	-	(4,564,228)
Furniture, equipment and vehicles	(424,130)	(34,132)	33,338	(424,924)
Total accumulated depreciation	<u>(7,479,370)</u>	<u>(3,130,515)</u>	<u>33,338</u>	<u>(10,576,547)</u>
Total capital assets, being depreciated, net	<u>64,118,824</u>	<u>(133,916)</u>	<u>(3,216,160)</u>	<u>61,036,580</u>
Capital assets, net	<u>\$ 66,997,610</u>	<u>\$ 6,967,309</u>	<u>\$ (6,416,160)</u>	<u>\$ 67,548,759</u>

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2010 was as follows:

	2010			Balance June 30, 2010
	Balance June 30, 2009	Increases	Decreases	
Capital assets, not being depreciated:				
Construction in progress	\$ 33,487,699	\$ 1,580,945	\$ (32,189,858)	\$ 2,878,786
Total capital assets not being depreciated	<u>33,487,699</u>	<u>1,580,945</u>	<u>(32,189,858)</u>	<u>2,878,786</u>
Capital assets, being depreciated:				
SRMU storage facility	8,517,611	24,340	-	8,541,951
RLV hangar and office space	4,696,984	-	-	4,696,984
Orion facility	-	32,032,069	-	32,032,069
Space Life Sciences Lab	25,463,414	-	-	25,463,414
Furniture, equipment and vehicles	730,808	159,722	(26,754)	863,776
Total capital assets being depreciated	<u>39,408,817</u>	<u>32,216,131</u>	<u>(26,754)</u>	<u>71,598,194</u>
Less accumulated depreciation for:				
SRMU storage facility	(1,206,662)	(426,962)	-	(1,633,624)
RLV hangar and office space	(923,729)	(413,164)	-	(1,336,893)
Orion facility	-	(550,909)	-	(550,909)
Space Life Sciences Lab	(2,587,660)	(946,154)	-	(3,533,814)
Furniture, equipment and vehicles	(295,879)	(141,484)	13,233	(424,130)
Total accumulated depreciation	<u>(5,013,930)</u>	<u>(2,478,673)</u>	<u>13,233</u>	<u>(7,479,370)</u>
Total capital assets, being depreciated, net	<u>34,394,887</u>	<u>29,737,458</u>	<u>(13,51)</u>	<u>64,118,824</u>
Capital assets, net	<u>\$ 67,882,586</u>	<u>\$ 31,318,403</u>	<u>\$ (32,203,379)</u>	<u>\$ 66,997,610</u>

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2011 and 2010, was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Compensated absences	\$ 86,806	\$ 121,062	\$ (105,547)	\$ 102,321	\$ 55,026
Total	<u>\$ 86,806</u>	<u>\$ 121,062</u>	<u>\$ (105,547)</u>	<u>\$ 102,321</u>	<u>\$ 55,026</u>

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Compensated absences	\$ 67,853	\$ 132,176	\$ (113,223)	\$ 86,806	\$ 50,198
Total	<u>\$ 67,853</u>	<u>\$ 132,176</u>	<u>\$ (113,223)</u>	<u>\$ 86,806</u>	<u>\$ 50,198</u>

NOTE 7 – CONDUIT DEBT

As defined by GASB Interpretation No. 2, conduit debt obligations are certain limited obligation debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although the conduit debt obligations bear the name of the governmental entity, the entity has no obligation to repay the conduit debt beyond the resources provided by a lease or loan to the third party. GASB has concluded that conduit debt does not create a liability for the governmental entity and, therefore, is not reflected on the entity's basic financial statements. Space Florida has participated in the issuance of conduit debt projects that are not reflected on the statement of net assets of its basic financial statements.

The conduit debt transactions discussed below are limited obligation debts of Space Florida and are payable solely from the pledged revenues described in the respective debt agreements. Neither the faith nor credit, nor the taxing power of Space Florida, the State of Florida, nor any subdivision thereof is pledged to the payment of the debts.

During January 2000, the Florida Space Authority entered into an agreement to assist in the financing and modification of Launch Complex 41 for use of the Atlas V rocket. This project was completed during the year ended June 30, 2003. The original value of the Florida Space Authority assisted financing on this project was approximately \$294,117,000. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. The debt was refinanced in November 2010 with a principal balance of \$100,000,000. As of June 30, 2011 and 2010, respectively, the outstanding balance was approximately \$83,694,570 and \$87,983,000. Rental revenue received on the Atlas V facility was being used to pay off the debt.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 7 – CONDUIT DEBT (CONTINUED)

During July 2005, the Florida Space Authority entered into an agreement to assist in the financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. The project was completed during the year ended June 30, 2009, at which point the total value of the Florida Space Authority assisted financing on this project was approximately \$35,000,000. As of June 30, 2011 and 2010, the outstanding balance on Space Florida assisted financing was approximately \$10,698,000 and \$17,219,000, respectively. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

During March 2007, Space Florida entered into an agreement to assist in additional financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. The project was completed during the year ended June 30, 2009, at which point the total value of the Florida Space Authority assisted financing on this project was approximately \$5,000,000. As of June 30, 2011 and 2010, the outstanding balance on Space Florida assisted additional financing was approximately \$4,567,000 and \$4,767,000, respectively. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

NOTE 8 – SRMU STORAGE FACILITY

On May 15, 2007, Space Florida entered into an agreement to lease the Titan IV Solid Rocket Motor Upgrade (SRMU) storage facility constructed at Camp Blanding, Florida. The lease currently extends through September 30, 2010, and may be extended for up to seven additional one year periods. During fiscal year 2011 the lease was extended through September 30, 2011. However, the tenant may terminate the lease with a 90-day written notice. During the years ended June 30, 2011 and 2010, Space Florida recorded lease revenue of \$504,401 and \$466,806, respectively.

The SRMU storage facility was constructed on land owned by the State of Florida Armory Board. The annual land use fee for fiscal years 2011 and 2010 is approximately \$206,000 and \$193,000, respectively, and is payable by Space Florida in monthly installments of approximately \$17,000 and \$16,000, respectively.

If the current tenant chooses not to renew the lease and no suitable lease agreement is secured with another tenant, management believes the service utility of the facility would be significantly reduced. Under such circumstances, and in accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Space Florida would be required to report an impairment loss, not to exceed the then carrying value of the facility, which is \$6,485,461 as of June 30, 2011. However, management believes the current tenant will continue to renew the lease. Accordingly, no impairment loss has been recorded as of June 30, 2011.

Space Florida also stores the majority of its inventory of Super Loki rockets (Note 1) at the Camp Blanding facility. Depending on how the facility is ultimately utilized, as described above, Space Florida may be forced to either destroy or donate its stock of Super Loki rockets. If such circumstances occurred, Space Florida would be required to record a loss of approximately \$37,996, the carrying value of the rockets stored at its Camp Blanding facility. As of June 30, 2011, management believes it will be able to continue to store the rockets at its Camp Blanding facility and have, therefore, not recorded a contingent loss.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 9 – SPACE LIFE SCIENCES LAB

Space Florida leases the Space Life Sciences Lab (SLSL) to NASA under a lease agreement that ends September 30, 2011. The net carrying value of the facility at June 30, 2011 was \$20,899,186. During the years ended June 30, 2011 and 2010, Space Florida recorded lease revenue of \$1,277,770 and \$1,648,985, respectively.

The SLSL lease agreement also provides that the tenant is responsible for the operation and maintenance of the facility. However, Space Florida makes monthly payments to the tenant to cover such expenses. During the years ended June 30, 2011 and 2010, Space Florida recorded operations and maintenance expenses related to the SLSL facility of \$726,859 and \$549,662, respectively.

NOTE 10 – HANGAR LEASE

During fiscal year 2011, Space Florida entered into lease agreements to rent hangars in order to attract new business to Brevard County. The leases expire in December 2011, with monthly payments ranging from \$5,011 to \$11,200.

Minimum future rental payments under non-cancelable operating leases as of June 30, 2011 of \$198,647, are all due during the year ending June 30, 2012.

The rent expense for the year ending June 30, 2011 was \$223,469.

NOTE 11 – RIGHTS AND ACCESS

Launch Complex 36

Space Florida was granted a license to (right to use) Space Launch Complex 36 at Cape Canaveral Air Force Station from the Secretary of the Air Force for a period of five years commencing in November 2009 and ending November 2014. Space Florida anticipates renewal of the license in five year increments. The intended purpose of the complex, with certain limitations as described in the license agreement, is for the construction and operation of a multi-use vertical launch complex capable of supporting several launch vehicle configurations ranging from light to medium lift. The license is revocable at the will of the Secretary of the Air Force.

Launch Complex 46

Space Florida was granted a license to (right to use) Space Launch Complex 46 (SLC-46) at Cape Canaveral Air Force Station from the Secretary of the Air Force for a period of five years from September 2008 and ending September 2013. Space Florida anticipates renewal of the license in five year increments. The intended purpose of the complex, with certain limitations as described in the license agreement, is for the construction and operating of a launch complex that is capable to support space launches and other directly related activities for government, education, and commercial purposes. Through an agreement with the Air Force and Navy, Space Florida shares SLC-46 site with the Naval Ordnance Test Unit (NOTU). The license is revocable at the will of the Secretary of the Air Force.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 11 – RIGHTS AND ACCESS (CONTINUED)

Exploration Park

On January 1, 2009, Space Florida entered into a 60 year enhanced use lease agreement, including additional extension options, with NASA's John F. Kennedy Space Center for 60 acres and an optional 139 additional acres located adjacent to the SLSL. The intended purpose of this property, with certain limitations as described in the lease agreement, is for the development of a mixed-use, multi-tenant technology and commerce park referred to as "Exploration Park." The park is intended to host diverse aerospace-related activities for commercial, civil, and military tenants.

NOTE 12 – PROTOTYPE TESTING AGREEMENTS

During June 2010, Space Florida entered into an agreement to purchase an ultra efficient vehicle prototype from a third party entity (Seller 1) for \$500,000, for the purpose of testing the technology and capabilities of the prototype. Seller 1 delivered the prototype on October 15, 2010, and the testing period began.

Under the terms of the agreement, upon expiration of the testing period, Space Florida was to lease back the prototype to the seller. The sales lease back began on October 15, 2010 at the rate of \$100 per year for 10 years. At the end of the lease, Seller 1 has the option to repurchase the prototype for \$100. As additional consideration for the lease and option to purchase, the Seller issued to Space Florida a warrant with a ten year term to acquire 100 shares of Seller 1's common stock, which is estimated to equal a 1% ownership interest in Seller 1. The common stock warrants allow shares to be purchased for \$1,000 per share.

During March 2011, Space Florida entered into an agreement to purchase three production vehicles from another third party (Seller 1) for \$1,000,000. As of June 30, 2010, the vehicles were in the construction phase, and expected to be completed in October 2011. Beginning October 1, 2011, the three vehicles will be leased back to Seller 2 at \$100 per year for 10 years. Seller 1 has an option to purchase the vehicles on October 1, 2021 for \$100. Seller 1 issued Space Florida a warrant with a 10 year term to acquire 200 shares of the Seller's common stock. The warrants allow common stock shares to be purchased for \$1,843 per share and is equal to a 2% ownership interest in Seller 1.

Also, in March 2011, Space Florida entered into an agreement to purchase a prototype from Seller 2 for \$1,200,000, for the purpose of testing the technology and capabilities of the prototype. Of the \$1,200,000, \$500,000 was a loan convertible into common stock of Seller 2. Space Florida converted the loan during the year and obtained 25,000 shares of common stock of Seller 2. A sales lease back will begin on the completion of the construction of the prototype. Seller 2 will lease the vehicle for 7 years for \$100 a year, and at the end of the lease can purchase the prototype for \$100. As additional consideration for the lease, Seller 2 gave Space Florida warrants to purchase 25,000 shares of common stock in Seller 2, this is an estimated ownership of 2.5% in Seller 2. The warrants can be exercised for \$.01 a share.

In June 2011, Space Florida entered into an agreement to purchase a prototype from a third party (Seller 3) for \$500,000, for the purpose of testing the technology and capabilities of the prototype. A sales lease back will begin upon the completion of the construction of the prototype. Seller 3 will lease the vehicle for 7 years for \$100 a year, and at the end of the lease can purchase the prototype for \$100. As additional consideration for the lease, Seller 3 gave Space Florida warrants to purchase 20,000 shares of common stock in Seller 3, this is an estimated ownership of 2% in Seller 3. The warrants can be exercised for \$.01 a share.

As of June 30, 2011 the warrants and common stock are recorded in investments, and the receivables for the capital leases are included in other current assets.

SPACE FLORIDA

Notes to the Financial Statements

June 30, 2011 and 2010

NOTE 13 – RETIREMENT PLAN

Effective September 1, 2006, Space Florida established a Simplified Employee Pension Plan (the “Plan”). The Plan eliminates the taxation required for the social security element of the Federal Insurance Contributions Act (FICA) for all participants and for Space Florida. Employees may not contribute to social security while participating in the Plan.

All employees of Space Florida are eligible to participate in the Plan immediately. Participants vest at 100% upon entering the Plan and retirement is set at age 65. The Plan is non-contributory for employees and, therefore, all contributions are the obligation of Space Florida. Contributions to the Plan for the years ended June 30, 2011 and 2010 were \$327,624 and \$348,854, respectively, and represented 15% of total eligible employee gross compensation for each period.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Commitments

Contract commitments at June 30, 2011 and 2010 were approximately \$4,204,533 and \$553,000, respectively, and related to the prototype testing agreement (Note 12) and certain other consulting agreements.

Economic Dependency

Space Florida received approximately 88% and 58% of its total support from State legislative appropriations during the years ended June 30, 2011 and 2010, respectively.

State Appropriated Funds & Federal Contracts

Amounts received from State and Federal agencies are subject to audit and adjustment at the discretion of these entities. If expenditures are disallowed as a result of these audits, the claims for reimbursement to the agency would become a liability of Space Florida.

NOTE 15 – SUBSEQUENT EVENTS

On August 8, 2011, Space Florida entered into an agreement to give \$1,250,000 to a third party related to the space industry for start-up costs. Space Florida will also provide office space at SLSL to the third party for three years.

Effective July 1, 2011, Space Florida will be governed by a 12 member independent board of directors that consists of the appointed members of the Enterprise Florida board. Space Florida will also have a 15 member advisory council that are appointees of the Governor.

The SRMU lease agreement was extended through September 30, 2012 (See Note 8).

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SUPPLEMENTARY INFORMATION

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SPACE FLORIDA

Schedule of Travel, Entertainment and Incidental Expenses

For the year ended June 30, 2011

Domestic:

Travel and incidental (1)	\$ 265,055
Entertainment	<u>24,516</u>
Total domestic	<u>289,571</u>

Foreign:

Travel and incidental (1)	70,235
Entertainment	<u>5,957</u>
Total foreign	<u>76,192</u>
Total	<u><u>\$ 365,763</u></u>

(1) Incidental expenses consist of telephone charges and gratuities.

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Hoyman Dobson

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*

The Board of Directors
Space Florida

We have audited the financial statements of Space Florida as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Space Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Space Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Space Florida's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any such deficiencies.

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. We did not identify any control deficiencies that we consider to be significant deficiencies in internal control over financial reporting.

Certified Public Accountants

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Space Florida'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*.

This report is intended solely for the information and use of management, Space Florida's Board of Directors, others within the entity, State awarding agencies, specific legislative or regulatory bodies and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Hoyman Dobson". The signature is written in a cursive style and is positioned to the left of a vertical yellow line.

Hoyman Dobson
Melbourne, Florida
September 29, 2011



Hoyman Dobson

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General

The Board of Directors
Space Florida

Compliance

We have audited Space Florida's compliance with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that could have a direct and material effect on each of Space Florida's major state projects for the year ended June 30, 2011. Space Florida's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects is the responsibility of Space Florida's management. Our responsibility is to express an opinion on Space Florida's compliance based on our audit.

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 Chapter 10.550, Rules of the Auditor General. Those standards, and Chapter 10.550, Rules of the Auditor General, 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 state project occurred. An audit includes examining, on a test basis, evidence about Space Florida'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. Our audit does not provide a legal determination of Space Florida's compliance with those requirements.

In our opinion, Space Florida complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Space Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Space Florida's internal control over compliance with requirements that could have a direct and material effect on a major state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General, 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 Space Florida's internal control over compliance.

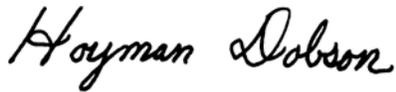
Certified Public Accountants

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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 state project 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 state project will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Space Florida's Board of Directors, others within the entity, State awarding agencies, specific legislative or regulatory bodies and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Hoyman Dobson". The signature is written in a cursive style. To the right of the signature is a vertical yellow line.

Hoyman Dobson
Melbourne, Florida
September 29, 2011

SPACE FLORIDA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Space Florida.
2. No instances of material weakness relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of Space Florida were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state award programs are reported.
5. The auditors' report expresses an unqualified opinion on state award programs.
6. We had no audit findings that would be required to be reported in accordance with Chapter 10.550, Rules of the Auditor General.
7. The programs tested as major projects include:

<u>CSFA Number(s)</u>	<u>Name of State Project</u>
31.004	Infrastructure Agreement
31.004	Funding and Program Agreement
31.004	Jobs Agreement
31.004	Infrastructure Agreement

8. The threshold used for distinguishing between Type A and B programs was \$300,000 for state grants.
9. Space Florida qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS

None noted.

FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

None noted.

OTHER ISSUES

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.

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SPACE FLORIDA

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2011

State Agency	CSFA Number	Contract/Grant Number	Expenditures	Transfer to Subrecipients
Office of Tourism, Trade and Economic Development				
Direct Projects				
Infrastructure Agreement	31.004	OT-09-045	\$ 842,840	\$ -
Funding & Program Agreement	31.004	OT-11-008	4,001,103	-
Jobs Agreement	31.004	OT-11-011	8,144,009	-
Infrastructure Agreement	31.004	OT-11-021	2,911,095	-
Total Expenditures of State Financial Assistance			<u>\$15,899,047</u>	<u>\$ -</u>

Note: This schedule is prepared on the accrual basis of accounting.

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Hoyman Dobson

Independent Auditors' Management Letter

The Board of Directors
Space Florida

We have audited the financial statements of Space Florida as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated September 29, 2011.

We conducted our audit 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*. We have issued our 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*, Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated September 29, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

- ❖ Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no corrective actions to be taken as there were no findings and recommendations made in the preceding annual financial audit report.
- ❖ Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Space Florida complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Certified Public Accountants

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- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of Space Florida is disclosed in the footnotes.
- ❖ Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the special condition(s) met. In connection with our audit, we determined that Space Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Space Florida for the fiscal year ended June 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2011. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Space Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, Space Florida's Board of Directors and others within the entity, State awarding agencies, specific legislative or regulatory bodies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
September 29, 2011