

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 and 2012**

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Economic Development Commission
of Florida's Space Coast, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Economic Development Commission of Florida's Space Coast, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 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.

Auditor's 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 auditor's 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.

Board of Directors of
Economic Development Commission
of Florida's Space Coast, Inc.
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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 Economic Development Commission of Florida's Space Coast, Inc. as of September 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by the Florida Single Audit Act, is presented for purposes of additional analysis 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 information 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 January 27, 2014, on our consideration of Economic Development Commission of Florida's Space Coast, Inc.'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 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 Economic Development Commission of Florida's Space Coast, Inc.'s internal control over financial reporting and compliance.

Janes, Dinho & O'Keefe LLP
Janes, Dinho & O'Keefe LLP
Certified Public Accountants
January 27, 2014

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,179,577	\$ 572,525
Accounts receivable, net of allowance of \$35,000 in 2013 and \$38,500 in 2012	59,055	84,653
Contracts receivable	116,671	116,671
Grants receivable, net of allowance of \$0 in 2013 and \$35,500 in 2012	2,954,563	2,010,146
Prepaid expenses	<u>122,228</u>	<u>17,815</u>
TOTAL CURRENT ASSETS	<u>4,432,094</u>	<u>2,801,810</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$96,838 in 2013 and \$85,280 in 2012	<u>24,602</u>	<u>33,551</u>
OTHER ASSETS		
Intangible assets, net of accumulated amortization of \$48,703 in 2013 and \$48,436 in 2012	<u>44</u>	<u>311</u>
TOTAL ASSETS	<u><u>\$ 4,456,740</u></u>	<u><u>\$ 2,835,672</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 101,546	\$ 373,658
Accrued expenses	136,510	144,965
Deferred revenue	2,965,966	38,050
Refundable advance	<u>-</u>	<u>1,387,367</u>
TOTAL LIABILITIES	<u>3,204,022</u>	<u>1,944,040</u>
NET ASSETS		
Unrestricted		
Undesignated	853,892	542,592
Designated	<u>398,826</u>	<u>349,040</u>
TOTAL NET ASSETS	<u>1,252,718</u>	<u>891,632</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,456,740</u></u>	<u><u>\$ 2,835,672</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

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**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
SUPPORT AND REVENUES	\$ 3,963,790	\$ 2,861,078
EXPENSES		
Program services		
Economic development	3,163,669	2,333,843
Supporting services		
Management and general	439,035	429,197
TOTAL EXPENSES	<u>3,602,704</u>	<u>2,763,040</u>
CHANGE IN NET ASSETS	361,086	98,038
NET ASSETS AT BEGINNING OF YEAR	<u>891,632</u>	<u>793,594</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,252,718</u>	<u>\$ 891,632</u>

The accompanying notes to the financial statements are an integral part of this statement.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2013**

	Program Services	Support Services	2013 Total Expenses
	Economic Development	Management and General	
EXPENSES			
Advertising and promotion	\$ 150,522	\$ -	\$ 150,522
Association dues	1,481	-	1,481
Education and training	16,577	4,406	20,983
Expenses under grants	1,587,653	-	1,587,653
Facilities/occupancy	88,208	23,448	111,656
Health, disability, liability and workers' compensation insurance	148,647	39,514	188,161
Membership meetings and functions	57,596	-	57,596
Miscellaneous	-	8,247	8,247
Office and administrative	-	30,913	30,913
Payroll taxes	61,842	16,439	78,281
Postage	1,740	463	2,203
Printing	651	173	824
Professional fees	20,848	22,637	43,485
Retirement contributions	112,142	29,810	141,952
Salaries	860,200	228,661	1,088,861
Telephone	14,277	3,796	18,073
Trade shows, travel and auto	3,391	-	3,391
Website maintenance and enhancement	27,079	1,425	28,504
Bad debt expense	-	27,195	27,195
TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	3,152,854	437,127	3,589,981
Depreciation	10,589	1,868	12,457
Amortization	226	40	266
TOTAL FUNCTIONAL EXPENSES	\$ 3,163,669	\$ 439,035	\$ 3,602,704

The accompanying notes to the financial statements are an integral part of this statement.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Program Services</u>	<u>Support Services</u>	2012
	Economic Development	Management and General	Total Expenses
EXPENSES			
Advertising and promotion	\$ 112,730	\$ -	\$ 112,730
Association dues	2,327	-	2,327
Consulting	36,059	-	36,059
Education and training	16,688	3,914	20,602
Expenses under grants	727,130	-	727,130
Facilities/occupancy	85,506	21,377	106,883
Health, disability, liability and workers' compensation insurance	155,822	36,551	192,373
Membership meetings and functions	65,752	-	65,752
Miscellaneous	-	10,516	10,516
Office and administrative	-	26,430	26,430
Payroll taxes	60,535	14,199	74,734
Postage	1,332	333	1,665
Printing	1,277	319	1,596
Professional fees	25,784	15,510	41,294
Retirement contributions	110,557	25,933	136,490
Salaries	860,585	201,865	1,062,450
Telephone	13,795	3,449	17,244
Trade shows, travel and auto	3,856	-	3,856
Website maintenance and enhancement	38,330	2,017	40,347
Bad debt expense	-	64,000	64,000
TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	2,318,065	426,413	2,744,478
Depreciation	14,297	2,523	16,820
Amortization	1,481	261	1,742
TOTAL FUNCTIONAL EXPENSES	\$ 2,333,843	\$ 429,197	\$ 2,763,040

The accompanying notes to the financial statements are an integral part of this statement.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 361,086	\$ 98,038
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	12,457	16,820
Amortization	266	1,742
Provision for bad debts	(39,000)	44,000
(Increase) decrease in assets:		
Accounts receivable	29,098	(19,516)
Grant receivable	(908,917)	(1,988,636)
Prepaid expenses	(104,413)	(3,593)
Increase (decrease) in liabilities:		
Accounts payable	(272,111)	343,993
Accrued expenses	(8,455)	19,617
Deferred revenue	2,927,916	21,981
Refundable advance	<u>(1,387,367)</u>	<u>1,387,367</u>
CASH PROVIDED (USED) BY OPERATIONS	<u>610,560</u>	<u>(78,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(3,508)</u>	<u>(13,756)</u>
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,508)</u>	<u>(13,756)</u>
NET CHANGE IN CASH	607,052	(91,943)
CASH, BEGINNING OF YEAR	<u>572,525</u>	<u>664,468</u>
CASH, END OF YEAR	<u>\$ 1,179,577</u>	<u>\$ 572,525</u>

The accompanying notes to the financial statements are an integral part of this statement.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Economic Development Commission of Florida's Space Coast, Inc. (the Commission) is the lead agency in Brevard County for the recruitment and retention of value-added manufacturing and technology-focused companies. It is supported primarily through contracts, grants and investor payments.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. For the fiscal years ended September 30, 2013 and 2012, all net assets were classified as unrestricted.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all unrestricted highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Commission did not hold any cash equivalents at September 30, 2013 or 2012.

Accounts and Grants Receivable

The Commission records accounts receivable when incurred and grants receivable when entitled to reimbursement at reporting intervals established in grant agreements. Management reviews receivables weekly for past due accounts, with balances over 90 days subject to review and follow-up by the President/CEO. Past due notices are sent to investors with balances exceeding 60 days and accounts greater than 120 days old are generally written off.

The Commission has established an allowance for uncollectible accounts and grants. Provision for uncollectible accounts is made based on several factors, including aging analysis and past experience.

Equipment and Depreciation

The Commission capitalizes all expenditures for equipment with a value in excess of \$500 and a useful life greater than one year. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment and Depreciation (continued)

maintained, the Commission reports expirations of donor restrictions when the donated acquired assets are placed in service as instructed by the donor. The Commission reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the assets' expected useful lives.

Revenue Recognition

All support and revenues are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Commission had no temporarily or permanently restricted net assets in fiscal 2013 or 2012.

Donated Services and Materials

Donated services and materials are reflected in the financial statements at the fair value of the services and materials received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During fiscal years 2013 and 2012, approximately \$14,000 and \$27,000, respectively, has been recognized as donated revenue, primarily for investor payments, and expenses, primarily in program services.

Advertising Costs

Advertising costs are expensed when incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

The Commission is exempt from income tax under Section 501(c) (6) of the U.S. Internal Revenue Code.

The Commission uses the FASB ASC 450-10, Loss Contingencies, approach for evaluation of uncertain tax positions. Tax years ended September 30, 2010, 2011, and 2012 remain open for review by taxing authorities.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through January 27, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications of 2012 financial information have been made to conform to the 2013 presentation. Such reclassifications have no effect on change in net assets for that fiscal year.

NOTE 2 - OFF BALANCE SHEET CREDIT RISK

The Commission maintains cash in banks in amounts that are from time to time in excess of federally insured limits. The Commission had approximately \$233,000 and \$40,000 subject to this credit risk at September 30, 2013 and 2012, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT

At September 30, 2013 and 2012, property and equipment consisted of the following:

	2013			
	Cost	Accumulated Depreciation	Net Book Value	Estimated Life
Equipment	\$ 90,667	\$ 72,901	\$ 17,766	3-5 yrs.
Furniture and fixtures	30,773	23,937	6,836	5-10 yrs.
Total	\$ 121,440	\$ 96,838	\$ 24,602	

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)

	2012			Estimated Life
	Cost	Accumulated Depreciation	Net Book Value	
Equipment	\$ 88,058	\$ 63,581	\$ 24,477	3-5 yrs.
Furniture and fixtures	30,773	21,699	9,074	5-10 yrs.
Total	<u>\$ 118,831</u>	<u>\$ 85,280</u>	<u>\$ 33,551</u>	

NOTE 4 – INTANGIBLE ASSETS

Intangible assets at September 30, 2013 and 2012 consisted of the following:

	2013	2012
Software	\$ 48,747	\$ 48,747
Less: Accumulated amortization	<u>48,703</u>	<u>48,436</u>
Net unamortized value	<u>\$ 44</u>	<u>\$ 311</u>

The intangible assets above are being amortized over useful lives of three to five years, and are expected to be fully amortized within one year.

NOTE 5 – ACCRUED EXPENSES

Accrued expenses at September 30, 2013 and 2012 consisted of the following:

	2013	2012
Accrued compensation	\$ 133,784	\$ 140,245
Other accrued expenses	<u>2,726</u>	<u>4,720</u>
Total	<u>\$ 136,510</u>	<u>\$ 144,965</u>

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 6 – DEFERRED REVENUE AND REFUNDABLE ADVANCE

Deferred revenue at September 30, 2013 totaling \$2,965,966 consists of \$2,946,181 grant amounts invoiced in excess of revenue earned at year end and \$19,785 sponsorships received in advance of the annual meeting to be held in the subsequent fiscal year. Deferred revenue at September 30, 2012 of \$38,050 consists of approximately \$25,000 sponsorships received in advance of the annual meeting, and approximately \$13,000 in funds received in advance for anticipated future prospect costs.

The refundable advance of \$1,387,367 at September 30, 2012 consisted of grant amounts invoiced in excess of revenue earned at that date.

NOTE 7 – LINE OF CREDIT

The Commission maintains a business line of credit with a financial institution. At both September 30, 2013 and 2012, the line had a principal amount of \$250,000. The line of credit bears interest at 5.00 percent. Principal is due on demand and interest is due monthly. The line is secured with a Commercial Security Agreement which defines collateral to include all assets, personal property, and accounts receivable. At September 30, 2013 and 2012, there was no principal amount outstanding, leaving \$250,000 of unused credit available to the Commission.

NOTE 8 – DESIGNATIONS OF NET ASSETS

Unrestricted funds in the amount of \$398,826 and \$349,040 at September 30, 2013 and 2012, respectively, have been designated by the Board of Directors as an operational reserve. During fiscal 2012, the Commission adopted an operating reserve policy to ensure financial stability. The policy defines a target amount for funding the reserve, which is to be determined annually based on operating costs.

NOTE 9 – OPERATING LEASES

The Commission leases its office space under an operating lease with a term of 60 months, from August 2012 to July 2016. The lease requires monthly rent payments in the amount of \$7,304, increased to \$7,552 in August 2013. Lease payments include taxes, insurance, and certain utilities and maintenance. Payments are adjusted annually based on the Consumer Price Index; however, the new rate cannot be lower than the previous year. The lease includes an option to renew for an additional five years. The lease also includes an early termination clause, which permits the Commission to terminate the lease with six months' notice in case of a significant reduction in funding from Brevard County. In the event the lease is terminated early, the Commission would remain obligated to pay an amount equaling \$450 per month for any remaining months in the initial term of the lease.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 9 – OPERATING LEASES (CONTINUED)

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of September 30, 2013, for the remaining years and in the aggregate are:

Year ended September, 2014	\$ 90,618
2015	90,618
2016	<u>75,515</u>
Total	<u>\$ 256,751</u>

The Commission has subleased a portion of its office space to Florida MEP. Florida MEP paid \$1,500 monthly for the period from August 2011 through September 2013.

Rent expense for fiscal years ended September 30, 2013 and 2012 totaled approximately \$85,000 and \$86,000, respectively, and rental income under the sublease was \$18,000 and \$17,400, respectively.

NOTE 10 – REVENUE SOURCES AND CONCENTRATIONS

The Commission receives money from public sources, primarily from the Board of County Commissioners of Brevard County, Florida and various grantors, and from private sources, primarily investors.

Sources of revenue to the Commission for fiscal 2013 and 2012 were as follows:

<u>Sources</u>	<u>2013</u>	<u>2012</u>
Brevard County contract	\$ 1,400,050	\$ 1,400,050
Investor payments	455,050	448,383
Investor meetings and functions	63,907	72,214
State grants	2,016,920	767,128
Federal grants	-	97,919
Sponsorship	-	11,869
Program participant payments	-	42,581
Sublease revenue	18,000	17,400
Interest income	3,488	3,534
Other income	6,375	-
Total	<u>\$ 3,963,790</u>	<u>\$ 2,861,078</u>

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 10 – REVENUE SOURCES AND CONCENTRATIONS (CONTINUED)

There is a concentration of credit risk with respect to the volume of support the Commission receives from certain funding sources. The Commission received \$1,400,050, or thirty-five percent (35%), and \$1,400,050, or forty-nine percent (49%), of its support and revenues from the Board of County Commissioners of Brevard County, Florida for fiscal years 2013 and 2012, respectively. In addition, the Commission received \$1,936,920, or forty-nine percent (49%) of fiscal 2013 support and revenues under a grant agreement with the Florida Department of Economic Opportunity and \$654,495, or twenty-three percent (23%) of fiscal 2012 support and revenues from Enterprise Florida, Inc. under various grant agreements.

In addition, there is a concentration of risk associated with receivables from the following parties:

	<u>2013</u>	<u>2012</u>
Florida Dept of Economic Opportunity	92%	66%
Brevard County, Florida	4%	5%
Enterprise Florida, Inc.	0%	21%

Effective July 1, 2012, the Commission was awarded a grant from the Florida Department of Economic Opportunity to fund and implement an innovative economic development program, including commercialization of research and development, economic diversification and job creation. The grant totals \$10,000,000 and has a term of two years. Grant revenue of \$1,936,920 and \$112,633 has been recognized in the fiscal years ended September 30, 2013 and 2012, respectively.

NOTE 11 – RETIREMENT PLAN

The Commission has a non-contributory defined contribution retirement plan that covers employees who have one year of full-time, non-temporary service. Contributions to the plan are equal to 15% of each eligible employee's salary. During fiscal 2013 and 2012, plan contributions charged to operations were \$141,952 and \$136,490, respectively.

NOTE 12 – FAIR VALUE MEASUREMENTS

FASB ASC 825-10, Disclosure about Fair Value of Financial Instruments, requires disclosure of an estimate of fair value of certain financial instruments. The Commission's significant financial instruments are cash, accounts and grants receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Commission is a defendant in a lawsuit filed by the Brevard County Clerk of the Court to obtain certain records related to a previous prospect company assisted by the Commission. The suit also asks for payment of the plaintiff's attorneys' fees and other costs. The Commission believes that the defendant's position is without merit and is vigorously defending its position. A trial date has been set for late in January 2014.

Certain contracts and grants received by the Commission are subject to review by grantor agencies. As a result of these reviews, the Commission may be required to repay a portion of grant or contract funds received. However, management does not believe any liability related to its grants and contracts would be material.

The Commission has commitments to make payments of approximately \$2.8 million to subrecipients over various future periods extending through fiscal 2017.

**ECONOMIC DEVELOPMENT COMMISSION OF FLORIDA'S SPACE COAST, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 2013**

State Agency/Pass-through Entity/ State Project	CSFA No.	Contract/ Grant No.	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
State of Florida				
Department of Economic Opportunity				
Direct:				
Space Florida	40.004	SB13011	\$ 1,936,920	\$ 1,312,115
Indirect:				
Passed through Enterprise Florida, Inc.				
Military Base Protection	40.014	DRG 12-07	5,000	-
		DRG 13-02	75,000	-
Total Expenditures of State Financial Assistance			\$ 2,016,920	\$ 1,312,115

Note to Schedule of State Financial Assistance

The Schedule is presented on the accrual basis of accounting and includes state grant expenditures of Economic Development Commission of Florida's Space Coast, Inc. The information in this Schedule is presented in accordance with Florida Single Audit Act and Chapter 10.650, *Rules of the State of Florida Auditor General*.

**ADDITIONAL ELEMENTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS,
THE FLORIDA SINGLE AUDIT ACT, AND
RULES OF THE AUDITOR GENERAL**

INDEPENDENT AUDITOR'S 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
Economic Development Commission of Florida's Space Coast, Inc.

We have audited, in accordance with the 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 Economic Development Commission of Florida's Space Coast, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and have issued our report thereon dated January 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Economic Development Commission of Florida's Space Coast, Inc.'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 Economic Development Commission of Florida's Space Coast, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies 2013-1 and 2013-2 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Economic Development Commission of Florida's Space Coast, Inc.
Page two

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 consider the deficiencies 2013-3 and 2013-4 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Economic Development Commission of Florida's Space Coast, Inc.'s financial statements are free from 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*.

Economic Development Commission of Florida's Space Coast, Inc.'s Response to Findings

Economic Development Commission of Florida's Space Coast, Inc.'s response to the findings identified in our audit is described in the accompanying corrective action plan. Economic Development Commission of Florida's Space Coast, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Janes, Dinho & O'Keefe LLP

Janes, Dinho & O'Keefe LLP
Certified Public Accountants
January 27, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE FLORIDA SINGLE AUDIT ACT AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

To the Board of Directors
Economic Development Commission of Florida's Space Coast, Inc.

Report on Compliance for Each Major State Project

We have audited Economic Development Commission of Florida's Space Coast, Inc.'s compliance with the types of compliance requirements described in the Florida State Projects Compliance Supplement that could have a direct and material effect on each of Economic Development Commission of Florida's Space Coast, Inc.'s major state projects for the year ended September 30, 2013. Economic Development Commission of Florida's Space Coast, Inc.'s major state projects are identified in the summary of auditor's 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 state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Economic Development Commission of Florida's Space Coast, Inc.'s major state projects 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, the Florida Single Audit Act (FSAA), and Chapter 10.650, Rules of the Auditor General of the State of Florida. Those standards, rules and the FSAA 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 Economic Development Commission of Florida's Space Coast, Inc.'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 state project. However, our audit does not provide a legal determination of Economic Development Commission of Florida's Space Coast, Inc.'s compliance.

Opinion on Each Major State Project

In our opinion, Economic Development Commission of Florida's Space Coast, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of Economic Development Commission of Florida's Space Coast, Inc. 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 Economic Development Commission of Florida's Space Coast, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with the FSAA, 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 Economic Development Commission of Florida's Space Coast, Inc.'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 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. *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 state project 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.

Economic Development Commission of Florida's Space Coast, Inc.
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Purpose of this Report

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 the FSAA and the Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Janes, Dinho & O'Keefe LLP
Janes, Dinho & O'Keefe LLP
Certified Public Accountants
January 27, 2014

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**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Economic Development Commission of Florida's Space Coast, Inc.
2. Four internal control deficiencies disclosed during the audit of the financial statement are reported in the 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*. Two of the conditions are material weaknesses and two are significant deficiencies.
3. No instances of noncompliance material to the financial statements of Economic Development Commission of Florida's Space Coast, Inc. were disclosed during the audit.
4. Reportable conditions in internal control over major state projects: none reported as a result of the audit.
5. The auditor's report on compliance for the major state project for Economic Development Commission of Florida's Space Coast, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major state projects for Economic Development Commission of Florida's Space Coast, Inc. that the auditor is required to report under Rules of the Auditor General Chapter 10.656 are reported in this Schedule.
7. The project tested as a major project included:

Space Florida, Inc. 40.004
8. The threshold for distinguishing Type A and B projects was \$300,000.
9. No items related to state financial assistance that are required to be reported in a management letter were found as a result of the audit.
10. A summary schedule of prior audit findings is not presented, as there were no prior audit findings on which to be reported.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2013-1. Improper Grant Revenue Recognition

Criteria: Revenue should only be recorded when objective earnings criteria have been satisfied, and financial activity is to be recorded in the proper fiscal period. It is essential that revenue recognition be complete and proper in order for management and Board members to have accurate financial information with which to make informed business decisions.

Condition: Grant revenue recorded in the financial records relating to performance of subcontract recipients was overstated by approximately \$126,000. Grant revenue relating to costs incurred by the Commission for grant administration and for business development efforts was understated in the financial records by approximately \$184,000, for a net understatement of approximately \$58,000.

Additionally, two subcontracts, totaling approximately \$363,000, were approved by the grantor and had fully executed contracts with subrecipients, but were not recorded in accounts receivable and deferred revenue in the financial records. While these subcontracts had not yet qualified for revenue recognition, they had met the criteria to be invoiced to the grantor.

Effect: At September 30, 2013, grant receivables were understated by approximately \$363,000, deferred revenue was understated by approximately \$304,000, and grant revenue and the change in net assets for fiscal 2013 were each understated by approximately \$59,000; an adjustment was required for the financial statements to be properly stated. Reports to the grantor were inconsistent with the financial records, however, those reports were found to be accurate when compared with supporting documents.

Recommendation: Revenue should be recognized when all elements essential to the earnings process are in place and fully executed and accomplished. Status of all contracts and subcontracts in progress should be reviewed between management and the accountant on a monthly basis, to assure that all activity is recorded in the proper fiscal period.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

2013-2. Unsupported Accrual Entry

Criteria: Expenses should only be reported in the financial records at the time incurred.

Condition: Expenses for grant administration in the amount of approximately \$109,000 during the quarter ended June 30, 2013 were recorded as an accrual entry in addition to the initial recording of payments for labor, related benefits, and certain vendor payments, without recording an offset against these previously recorded transactions.

Effect: Expenses and accounts payable at September 30, 2013 were each overstated by approximately \$109,000 and the change in net assets for fiscal 2013 was understated by approximately \$109,000; an adjustment was required for the financial statements to be properly stated.

Recommendation: When the level of accounts payable exceeds a predetermined amount, a detail of the components should be provided to management.

SIGNIFICANT DEFICIENCIES

2013-3. Error in Invoicing

Criteria: Invoices for grants which pay based on cost reimbursement basis should be supported by allowable expenses and traceable to recorded activity in the financial records.

Condition: One invoice for a non-major grant included an amount which was approximately \$13,000 higher than the submitted expense documentation, due to a math error in compiling the invoice. The invoice was accepted and paid by the grantor.

Effect: There are ample additional expenses allowable to be charged to this grant to support the recorded amount of revenue, therefore there is no correction necessary for the financial records. However, the invoice should be revised and additional supporting documents submitted to the grantor.

Recommendation: The invoicing process in place has historically been quite accurate. Although management reviews documentation prior to submission, a verification of calculations should be included in the review.

**ECONOMIC DEVELOPMENT COMMISSION
OF FLORIDA'S SPACE COAST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

2013-4. Overaccrual of Benefits Cost

Criteria: Retirement plan cost is to be calculated based on the eligible compensation of employees who have met the criteria for entry into the plan, generally based on length of service.

Condition: The calculation of retirement plan cost for the fiscal year ended September 30, 2013 included four employees who had not met length of service eligibility, resulting in recorded retirement plan cost which was approximately \$22,000 higher than required by the terms of the plan.

Effect: Retirement plan cost as originally recorded for fiscal 2013 was approximately \$22,000 higher than required by the terms of the plan. Approximately \$5,000 of this excess was also paid to the plan custodian before the end of the fiscal year.

Recommendation: We suggest that a format be developed for the calculation of retirement plan cost which will more clearly document eligibility criteria such as categories of compensation, hire date, length of service, and entry dates, to permit greater accuracy and preclude advance funding of the plan.

FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS AUDIT

REPORTABLE CONDITIONS

None



CORRECTIVE ACTION PLAN

January 27, 2014

The Audit Committee for the Economic Development Commission of Florida's Space Coast, Inc. respectfully submits the following corrective action plan for the year ended September 30, 2013.

Janes, Dinho & O'Keefe LLP
4875 N. Wickham Road, Suite 107
Melbourne, FL 32940

Fiscal year ended September 30, 2013:

The findings from the September 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings - Financial Statements Audit

Reportable Condition:

2013-1. Improper Grant Revenue Recognition

Recommendation: Revenue should be recognized when all elements essential to the earnings process are in place and fully executed and accomplished. Status of all contracts and subcontracts in progress should be reviewed between management and the accountant on a monthly basis, to assure that all activity is recorded in the proper fiscal period.

Corrective Action To Be Taken: We concur with the recommendation to review status on a periodic basis. Effective immediately, the EDC will be implementing a monthly review of all active contracts and sub-contracts. Further, the EDC will develop processes and procedures to identify and confirm that conditions to performance or payment have been met and to confirm amounts earned. Management will review accounts to verify consistency with the established procedures, no less frequently than once a quarter.

2013-2. Unsupported Accrual Entry

Recommendation: When the level of accounts payable exceeds a predetermined amount, a detail of the components should be provided to management.

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www.SpaceCoastEDC.org

2013-3. Error in Invoicing

Recommendation: The invoicing process in place has historically been accurate. Although management reviews documentation prior to submission, a verification of calculations should be included in the review.

Corrective Action To Be Taken: We concur with the recommendation. The EDC will implement a verification process of calculation of amounts to be processed as expenses or payables.

2013-4. Overaccrual of Benefits Cost

Recommendation: We suggest that a format be developed for the calculation of retirement plan cost which will more clearly document eligibility criteria such as categories of compensation, hire date, length of service, and entry dates, to permit greater accuracy and preclude advance funding of the plan.

Corrective Action To Be Taken: We concur with the recommendation. With the assistance and guidance of its third party administrator, the EDC will develop a calculation matrix that incorporates the eligibility criteria.

Findings - Major State Award Projects Audit

Reportable Conditions

None

Respectfully Submitted,



Lynda Weatherman
President & CEO