

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Commercial Space Flight Authority for the year ended June 30, 2007, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2007, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance with laws and regulations that are required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The management of the Virginia Commercial Space Flight Authority (the Authority), offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Virginia Commercial Space Flight Authority for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. As a related organization of the Commonwealth of Virginia, the Authority implemented these reporting requirements for its fiscal year ended June 30, 2003.

Summary of Organization and Business

The Virginia Commercial Space Flight Authority was established by Chapter 758 of the 1995 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 29.1 of Title 9 of the Code of Virginia. The Authority was created to disseminate knowledge pertaining to scientific and technological research and development among public and private entities including, but not limited to, knowledge in the area of commercial space flight, and to promote industrial and economic development. A Board of Directors, composed of 12 members, manages the Authority.

The Authority is considered a related organization of the Commonwealth of Virginia. Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are considered related organizations.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements prepared by the Authority. The MD&A represents management's examination and analysis of the financial performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Statement of Cash Flows, and Notes to the Financial Statements. The following analysis discusses elements from these statements, as well as an overview of the Authority's activities.

Statement of Net Assets

The Statement of Net Assets presents the Authority's Assets, Liabilities, and Net Assets as of the end of the fiscal year. The purpose of this statement is to present readers a fiscal snapshot at June 30, 2007. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the Authority's operations. They are also able to determine how much the Authority owes vendors and creditors.

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<u>Assets</u>			
Current assets	\$ 1,535,459	\$ 514,707	\$ 1,020,752
Capital assets, net of accumulated depreciation	<u>1,431,078</u>	<u>1,499,920</u>	<u>(68,842)</u>
Total assets	<u>2,966,537</u>	<u>2,014,627</u>	<u>951,910</u>
<u>Liabilities</u>			
Total current liabilities	<u>707,991</u>	<u>128,975</u>	<u>579,016</u>
<u>Net Assets</u>			
Invested in capital assets	1,431,078	1,499,920	(68,842)
Unrestricted	<u>827,468</u>	<u>385,732</u>	<u>441,736</u>
Total net assets	<u>\$ 2,258,546</u>	<u>\$ 1,885,652</u>	<u>\$ 372,894</u>

The increase in current assets of \$1,020,752 is primarily associated with cash balances remaining from launch fees paid during fiscal year 2007 and an increase in accounts receivable primarily related to activity under a contract with the National Aeronautics and Space Administration associated with launch activities and with the development of infrastructure and launch support capabilities, as discussed further under Significant Events. The decrease in capital assets of \$68,842 is a result of depreciation expense of \$118,842 charged against operations and investment in property improvements of \$50,000.

The increase in current liabilities of \$579,016 is primarily associated with an increase in deferred revenue of \$191,813, and amounts due to Old Dominion University Research Foundation of \$404,183 associated with funds advanced under grants and contracts on behalf of the Authority. The increase in unrestricted net assets is a result of the net income for the fiscal years exclusive of the depreciation charges associated with capital assets.

For more detailed information see the accompanying Statement of Net Assets.

Statement of Revenues, Expenses and Changes in Fund Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents a summary of revenue and expense activity which resulted in the change from beginning to ending net assets. The purpose of this statement is to present the Authority's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Operating revenues are generated in connection with providing launch support services and facilities. Operating expenses generally represent the cost of overall administration of the Authority and depreciation of its capital assets. Nonoperating revenues and expenses generally relate to funds received from federal cooperative agreements and contracts associated with the development of space launch capabilities at the Wallops Flight Facility located on the Eastern Shore of Virginia.

The following schedule compares the revenues, expenses and net assets for the current and previous fiscal year.

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Total operating revenues	\$ 480,000	\$ 190,000	\$ 290,000
Total operating expenses	<u>380,828</u>	<u>284,820</u>	<u>96,008</u>
Net operating income (loss)	99,172	(94,820)	193,992
Net non-operating revenue	<u>273,722</u>	<u>175,973</u>	<u>97,749</u>
Net income	372,894	81,153	291,741
Total net assets – beginning of year	<u>1,885,652</u>	<u>1,804,499</u>	<u>81,153</u>
Total net assets – end of year	<u>\$ 2,258,546</u>	<u>\$ 1,885,652</u>	<u>\$ 372,894</u>

Operating revenues increased \$290,000 as a result of user fees charged for the use of Launch Pad 0-B at the Wallops Flight Facility. As further discussed under Significant Events, two successful launches were completed during the 2007 fiscal year. Operating expenses increased as the Authority's activities and administrative personnel efforts increased in the operating functions associated with the launches during the year. Non-operating revenues increased in association with additional modifications made to Launch Pad 0-B infrastructure and a study performed to define further enhancements needed to expand the Authority's future launch capabilities.

For more detailed information see the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Statement of Cash Flows

The Statement of Cash Flows provides relevant information that aids in assessment of the Authority's ability to generate cash to meet present and future obligations and detailed information reflecting the Authority's sources and uses of cash during the fiscal year. Cash flow from operating activities reflects the sources and uses to support the essential mission and administration of the Authority. The primary sources are launch fees of \$480,000 and primary uses are payments to employees, including salaries, wages, and fringe benefits, and payments to suppliers. Cash flow from non-capital financing reflects the non-operating sources and uses of cash. The primary sources are sponsored research of \$702,920 associated with infrastructure development of the launch pad and associated facilities, launch capability studies, and \$100,000 from state appropriation. The primary use is to support the tasking associated with sponsored activities and to support cash requirements of operations.

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Cash flows from operating activities	\$ 205,705	\$ 13,024	\$ 192,681
Cash flows from non-capital financing activities	172,841	70,895	101,946
Cash flows from capital financing activities	<u>(50,000)</u>	<u>(12,500)</u>	<u>(37,500)</u>
Net change in cash and cash equivalents	<u>\$ 328,546</u>	<u>\$ 71,419</u>	<u>\$ 257,127</u>

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's capital assets consist primarily of infrastructure development associated with the construction of Launch Pad 0-B at the Wallops Flight Facility on the Eastern Shore of Virginia. In fiscal year 2007, additional modifications were made to Launch Pad 0-B infrastructure to make it ready to support the Air Force *Minotaur* family of launch vehicles. For more detailed information related to capital assets see the Notes to Financial Statements. The Authority currently has no long-term debt obligations.

SIGNIFICANT EVENTS

On December 16, 2006, the inaugural launch was conducted from the Authority's Launch Pad 0-B sending into low earth orbit the Air Force Research Lab's TACSAT 2 satellite aboard an Air Force *Minotaur I* launch vehicle. Launch support services and facilities were provided to the Air Force for this mission via the Authority's IQID contract (Task Orders 23, 24, 25) with NASA Wallops for the provision of launch services and facilities to Government customers. The TACSAT 2 launch was a resounding success marking the first orbital launch from Virginia soil in over 22 years. The TACSAT 2 mission provided over \$642,533 in total revenues to the Authority in fiscal year 2007.

On April 24, 2007, in a period of only four months, a second launch was conducted from Launch Pad 0-B sending into low earth orbit the Missile Defense Agency's Near Field Infrared Experiment (NFIRE) aboard an Air Force *Minotaur I* launch vehicle. Launch support services and facilities were provided to the Air Force Space Development Test Wing in similar manner as for the TACSAT 2 mission (Task Orders 14, 19, 20, 21). The NFIRE launch was another resounding success demonstrating unprecedented turn around time for orbital launches from the same launch pad. The NFIRE mission provided over \$268,271 in total revenues to the Authority in fiscal year 2007. The Authority received significant revenues in prior years to make modifications and upgrades to Pad 0-B in preparation for the NFIRE launch that had been originally scheduled to launch in June 2004. Delays in satellite development and testing caused over a two year delay in its deployment.

In September 2006, the Pathfinder mission for the NASA ALV-X1 was successfully conducted. This program is NASA Langley Research Center sponsored, and includes a demonstration launch of a new development launch vehicle built by ATK and three NASA experimental payloads. It had been originally scheduled to launch in mid-2007 but has been rescheduled for Spring 2008. The Authority is providing launch services, facilities and technical support for the ALV-X1 mission via the NASA Wallops IQID contract (Task Orders 17, 18, 26).

The Air Force Research Lab and Space Development Test Wing announced their intentions to launch the TACSAT 3 mission from the Authority's facilities on Wallops Island in late June 2007. It is anticipated that contracts for support of this mission currently scheduled for launch in the Spring of 2008 will be issued in September 2007. It is expected that the TACSAT 3 mission will provide over \$700,000 in revenue to the Authority in fiscal year 2008.

The Authority is nearing completion of the Congressionally directed and funded (\$500,000) study for the "Expansion of the Wallops Island Flight Center into a Next Generation Commercial Cargo Space." The study will define those enhancements that will need to be made to both NASA Wallops and to the Authority's commercially licensed launch facilities to enable the launch of cargo to low earth orbit and the International Space Station on a larger class of vehicles than can be presently launched from Wallops Island.

The Authority staff is participating with six or more entrepreneurial launch vehicle development companies desiring to establish a base of operations on or near the Authority's Wallops Island spaceport. Several are in competition for NASA's Commercial Space Transportation System procurement for cargo delivery to orbit. There has also been growing interest by several space adventure companies in establishing space tourism operations at the Authority's spaceport. Many believe that space tourism will represent the major space industry by mid-century.

Maryland and Virginia continue to cooperate in the administration of the Mid-Atlantic Regional Spaceport (MARS) per the Memorandum of Agreement (MOA) between the Governors of Virginia and Maryland signed in July 2003. MARS is the name of the commercial space flight center at Wallops Island owned by the Authority. Under this agreement, Maryland provided \$300,000 toward the operations of the Authority in fiscal years 2005 and 2006. No funds were provided by Maryland in fiscal year 2007 although there was an agreement between Maryland and Virginia to provide support through fiscal year 2009. Maryland officials cite budget shortfalls for their lack of financial support. Despite the lack of Maryland financial support in fiscal year 2007, the Authority remains actively engaged with Maryland in the promotion of MARS and its capabilities. Two Maryland representatives continue to serve and participate on the Authority's Board of Directors.

Through various sources of funds including Federal contracts for two launches in fiscal year 2008, other federal contracts for studies and technical support, commercial contracts from launch companies, and the \$100,000 Commonwealth of Virginia fiscal year 2008 appropriation along with existing cash assets, are expected to meet the Authority's fiscal year 2008 operating budget with nominal residuals being applied to operating reserves at the close of fiscal year 2008. Any additional contributions from Maryland will augment the above sources providing for additional stability and for potential additional employees to meet the increasing demand.

It remains essential that stabilizing funding from nonoperating sources be appropriated to provide the operating and maintenance reserves necessary to capture the non-uniform but sizable revenues from the anticipated Federal launches over the next several years and to provide the resources necessary to capture the growing market for space launch of traditional satellites, growth in space cargo, and emerging human space ventures.

FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2007

<u>ASSETS</u>	
Current assets	
Cash (Note 2)	\$ 703,996
Accounts receivable	804,146
Other assets	<u>27,317</u>
Total current assets	<u>1,535,459</u>
Capital assets (Note 3)	
Office furniture	15,505
Computer equipment	33,103
Machinery and equipment	12,500
Land improvements	175,000
Service tower - 0-A	1
Launch pad - 0-B	<u>2,104,848</u>
Sub-total	2,340,957
Less: accumulated depreciation	<u>(909,879)</u>
Net capital assets	<u>1,431,078</u>
Total assets	<u>2,966,537</u>
 <u>LIABILITIES</u> 	
Current liabilities	
Accounts payable and accrued expenses	20,701
Deferred revenue	223,721
Due to Old Dominion University Research Foundation (Note 4)	<u>463,569</u>
Total current liabilities	<u>707,991</u>
 <u>NET ASSETS</u> 	
Invested in capital assets	1,431,078
Unrestricted	<u>827,468</u>
Total net assets	<u><u>\$ 2,258,546</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

Operating revenues:	
Service fees	\$ 480,000
Operating expenses:	
Administration	173,492
Depreciation	118,842
Other	<u>88,494</u>
Total operating expenses	<u>380,828</u>
Operating income	<u>99,172</u>
Nonoperating revenues (expenses):	
State appropriation	100,000
Federal grants	903,039
State grants	11,691
Private grants	51,457
Pass-through grant	241,796
Expenses related to grants	<u>(1,034,261)</u>
Total nonoperating revenues	<u>273,722</u>
Net income	372,894
Net assets - beginning of year	<u>1,885,652</u>
Net assets - end of year	<u><u>\$ 2,258,546</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Cash paid to employees	\$ (96,713)
Cash paid to suppliers	(177,582)
Cash received from service fees	480,000
	<hr/>
Net cash provided by operating activities	205,705
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from state appropriation	100,000
Cash received for sponsored research	702,920
Cash payments for sponsored research	(630,079)
	<hr/>
Net cash provided by noncapital financing activities	172,841
	<hr/>
Cash flows from capital financing activities:	
Acquisition of property and equipment	(50,000)
	<hr/>
Net increase in cash and cash equivalents	328,546
	<hr/>
Cash and cash equivalents - beginning of year	375,450
	<hr/>
Cash and cash equivalents - end of year	\$ 703,996
	<hr/> <hr/>
Reconciliation of net income to net cash provided by operating activities:	
Net operating income	\$ 99,172
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	118,842
Changes in assets and liabilities:	
Decrease in other assets	4,671
Increase in accounts payable	(16,980)
	<hr/>
Net cash provided by operating activities	\$ 205,705
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The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Commercial Space Flight Authority was established by Chapter 758 of the 1995 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 29.1 of Title 9 of the Code of Virginia. The Authority was created to disseminate knowledge pertaining to scientific and technological research and development among public and private entities including, but not limited to, knowledge in the area of commercial space flight, and to promote industrial and economic development. A Board of Directors, composed of 12 members, manages the Authority.

The Authority is considered a related organization of the Commonwealth of Virginia. Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are considered related organizations.

B. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund. The enterprise fund is used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis, including depreciation, be financed or recovered primarily through user charges. All fund accounts of the Authority are presented in total on the financial statements.

The Authority's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has the option to apply FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected not to apply FASB pronouncements issued after the applicable date.

C. Basis of Accounting

The Authority's records are maintained on the accrual basis whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

D. Classification of Revenues and Expenses

The Authority presents its revenues and expenses as operating or non-operating based on the following criteria:

Operating expenses generally represent the cost of the overall administration of the Authority and the depreciation of its capital assets. Non-operating revenues and expenses generally relate to funds received from federal cooperative agreements associated with the development of space launch capabilities.

2. CASH

As of June 30, 2007, cash balances of \$703,996 were held by the Old Dominion University Research Foundation. The Foundation maintains its cash balances in depository accounts at financial institutions with deposits insured by FDIC.

3. CAPITAL ASSETS

The schedule below shows the breakdown of capital assets by category at June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Acquired</u> <u>Increased</u>	<u>Balance</u> <u>June 30, 2007</u>
Improvements other than buildings	\$ 2,104,849	\$ -	\$ 2,104,849
Land improvements	125,000	50,000	175,000
Office equipment	15,505	-	15,505
Computer equipment	33,103	-	33,103
Machinery and equipment	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Total at historical cost	<u>2,290,957</u>	<u>50,000</u>	<u>2,340,957</u>
Less: accumulated depreciation			
Improvements other than buildings	684,076	105,242	789,318
Land improvements	60,411	9,444	69,855
Office equipment	15,503	1	15,504
Computer equipment	30,630	1,655	32,285
Machinery and equipment	<u>417</u>	<u>2,500</u>	<u>2,917</u>
Total accumulated depreciation	<u>791,037</u>	<u>118,842</u>	<u>909,879</u>
Capital assets, net	<u>\$ 1,499,920</u>	<u>\$ (68,842)</u>	<u>\$ 1,431,078</u>

Capital assets are generally defined by the Authority as assets with an initial cost of \$2,000 or more and an estimated useful life in excess of one year. Property, plant, and equipment of the Authority are stated at cost and at the time of acquisition are set up in a comprehensive fixed asset system. Depreciation of the cost of property, plant, and equipment is provided on a straight line basis over their estimated useful lives as follows:

Machinery and equipment	5 to 7 years
Land improvements	15 years
Improvements other than buildings	20 years

4. DUE TO OLD DOMINION UNIVERSITY RESEARCH FOUNDATION

The Old Dominion University Research Foundation has advanced funds out of its reserves to finance various sponsored research programs for the Authority. The Authority will refund these advances as funds are received from grantors.

5. RELATED PARTY

The Authority has entered in a Limited Liability Corporation agreement with DynSpace, LLC. This agreement will create a joint venture called Flight Center One (FCO). The finalization of the agreement is incumbent on execution of a facilities lease, which will be executed when commercial business opportunities warrant the need for the facility.

6. RETIREMENT AND PENSION SYSTEMS

Certain employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS) through Old Dominion University. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Other regular full-time employees receive fixed contributions of 11 percent, which can be invested through an Old Dominion University Research Foundation-sponsored 403(b) Tax Sheltered Annuity Plan or received as taxable income. The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

7. OPERATING LEASE COMMITMENT

As of June 30, 2007, the Authority was in the process of negotiating a lease with Old Dominion University for office space occupied in May 2007. The estimated future lease commitments for this lease as of June 30, 2007, are expected to be as follows:

2008	\$ 885
2009	6,194
2010	11,503
2011	16,811
2012	22,119
2013-2014	<u>48,664</u>
Total	<u>\$ 106,176</u>

8. VIRGINIA LOCAL GOVERNMENT RISK MANAGEMENT PLAN

The Virginia Commercial Space Flight Authority is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The employees, directors, and agents of the Authority were insured for these risks under a self-insured liability plan, VaRISK 2, administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management with liability limits of \$1,000,000 for each occurrence.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 1, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Commercial Space Flight Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Commercial Space Flight Authority, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Virginia Commercial Space Flight Authority as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages one through five is not a required part of the basic financial statements, but is supplementary information required by the 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.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’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 the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain laws, regulations, and provisions of 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*.

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Directors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 6, 2007.

AUDITOR OF PUBLIC ACCOUNTS

JHS/wdh

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Norfolk, Virginia

BOARD MEMBERS

Vincent C. Boles, Chairman

Patrick O. Gottschalk, Vice-Chairman

Mark E. Bitterman	Robert H. Meurer
Aneesh P. Chopra	Frank V. Moore
Frederick B. Cooke, Jr.	Roseann Runte
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Peter Jobse	Elmer Travis

Billie M. Reed, Executive Director

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