

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**

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, 2008, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2008, 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 or other matters 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 (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, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

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 because the government appoints a majority of the Board, but is not financially accountable for the authority.

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 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, 2008. 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.

	As of June 30,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
<u>Assets</u>			
Current assets	\$1,037,233	\$1,535,459	\$(498,226)
Capital assets, net of accumulated depreciation	<u>1,426,678</u>	<u>1,431,078</u>	<u>(4,400)</u>
Total assets	<u>2,463,911</u>	<u>2,966,537</u>	<u>(502,626)</u>
<u>Liabilities</u>			
Current liabilities	<u>367,486</u>	<u>707,991</u>	<u>(340,505)</u>
<u>Net Assets</u>			
Invested in capital assets	1,426,678	1,431,078	(4,400)
Unrestricted	<u>669,747</u>	<u>827,468</u>	<u>(157,721)</u>
Total net assets	<u>\$2,096,425</u>	<u>\$2,258,546</u>	<u>\$(162,121)</u>

The decrease in total assets of \$502,626 is primarily associated with the collection of accounts receivable related to launch activities and infrastructure development that were outstanding as of June 30, 2007. The decrease in capital assets of \$4,400 is a result of depreciation expense of \$129,425 charged against operations offset by an investment in equipment of \$125,025.

The decrease in current liabilities of \$340,505 is primarily associated with a decrease in deferred revenue of \$177,952 and amounts due to Old Dominion University Research Foundation of \$203,703 associated with funds advanced under grants and contracts on behalf of the Authority. A significant portion of the deferred revenue as of June 30, 2007 was attributed to the Congressionally funded study for expansion of the launch capabilities as further discussed under Significant Events. The decrease in unrestricted net assets is a result of the net loss for the fiscal year exclusive of depreciation charges plus further investment in capital assets during the period.

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 non-operating revenues recognized and expenses incurred and any other revenues, expenses, gains and losses.

Operating expenses generally represent the cost of overall administration of the Authority and 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 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.

	For the year ended		
	June 30,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Total operating revenues	\$ 187,500	\$ 480,000	\$(292,500)
Total operating expenses	<u>533,506</u>	<u>380,828</u>	<u>152,678</u>
Net operating income (loss)	(346,006)	99,172	(445,178)
Net non-operating revenue	<u>183,885</u>	<u>273,722</u>	<u>(89,837)</u>
Net income (loss)	(162,121)	372,894	(535,015)
Total net assets – Beginning of year	<u>2,258,546</u>	<u>1,885,652</u>	<u>372,894</u>
Total net assets – End of year	<u>\$2,096,425</u>	<u>\$2,258,546</u>	<u>\$(162,121)</u>

Operating revenues decreased \$292,500 associated with user fees charged for the use of launch Pad 0-B at the Wallops Flight Facility. As further discussed under Significant Events, the TACSAT 3 mission originally schedule to launch during the fiscal year ended June 30, 3007 is now scheduled to launch in late fall 2008. Operating expenses increased as the Authority's administrative personnel efforts increased in functions associated with launch Pad 0-B operations and maintenance.

Non-operating revenue decreased as the Authority's activities related to infrastructure development at the Wallops Island location started during fiscal year 2007 were completed during the current fiscal period.

For more detailed information see the accompanying Statement of Revenues, Expenses and Changes in 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 uses to support the essential mission and administration of the Authority. The primary sources are launch fees of \$187,500 and the 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 activities of \$1,117,025 associated with infrastructure development of the launch pad and associated facilities and launch capability studies, and \$95,000 from state appropriation. The primary use is to support the tasking associated with sponsored activities and to support cash requirements of operations.

	For the year ended June 30,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Cash flows from operating activities	<u>\$(175,626)</u>	<u>\$205,705</u>	<u>\$(381,331)</u>
Cash flows from non-capital financing activities	<u>280,364</u>	<u>172,841</u>	<u>107,523</u>
Cash flows from capital financing activities	<u>(125,025)</u>	<u>(50,000)</u>	<u>(75,025)</u>
Net change in cash and cash equivalents	<u>\$ (20,287)</u>	<u>\$328,546</u>	<u>\$(348,833)</u>

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's capital assets consist primarily of infrastructure development associated with the construction and post construction modification of Launch Pad 0-B at the Wallops Flight Facility on the Eastern Shore of Virginia. In fiscal year 2008, additional equipment costing \$125,025 was purchased for use in launch operations. 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

Since completing the second successful orbital launch for the Air Force on April 24, 2007, the Authority began final preparations for the next two missions to be launched from Launch Pad 0-B, the NASA HSA/ALV and the Air Force TACSAT 3 missions.

The NASA HSA/ALV mission is currently scheduled for flight in late Summer 2008. This program is NASA Langley Research Center sponsored, and includes a demonstration launch of a new development launch vehicle built by Alliant TechSystems Inc. and three NASA experimental payloads. Originally scheduled to launch in mid-2007 the project experienced several delays because of its nature as a technology development and demonstration project. 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).

Since announcing their intentions to launch the TACSAT 3 mission from the Authority's facilities on Wallops Island in late June 2007, the Air Force Research Lab and Space Development Test Wing have worked with the Authority to prepare the TACSAT 3 for launch. The TACSAT 3 is currently scheduled to launch from Pad 0-B in late fall 2008. The Authority is providing launch services, facilities and technical support for the TACSAT 3 mission via the NASA Wallops IQID contract (Task Orders 27, 28).

The Authority completed 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 defined 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 study provided a recommended roadmap for achieving the desired expansion that addressed needed actions by the Authority, the Commonwealth, and the Federal Government. The study has been distributed to stakeholders and partners of the Authority, key officials in State government as well as to those Federal government entities as directed by Congress.

In June 2008, Orbital Sciences Corporation of Dulles, VA announced their selection of the Authority's Mid-Atlantic Regional Spaceport as the test and demonstration and follow-on operation launch base for their new Taurus II launch system. The Taurus II system will transport cargo to the International Space Station (ISS) under NASA Commercial Orbital Transportation System (COTS) development and procurement. Virginia's selection as the primary launch base for the Taurus II is expected to provide at least 125 new jobs and more than \$85 Million in capital investment in Virginia. The General Assembly provided \$16 Million in bond funding through the Virginia Public Building Authority (VPBA) to the VCSFA in fiscal year 2009 as part of the incentive package to secure this program for Virginia in a competition with Florida. In an agreement between the Commonwealth, VCSFA, and Orbital, the Governor agreed to request an additional \$10 Million in bond funding for fiscal year 2010 for the project. The bond debt will be satisfied by revenues received from Orbital for use of the VCSFA facilities developed with the bond funding. The first demonstration flight to the ISS by the Taurus II is scheduled for December 2010.

The Authority staff continues to participate with several 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 the Air Force Operationally Responsive Spacelift program to provide rapid launch of Department of Defense satellites. There continues to be 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 portion of the 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, VA 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 2008 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 2008, the Authority remains actively engaged with Maryland in the promotion of MARS and its capabilities. As a provision of the Governors MOA, two Maryland representatives continue to serve and participate on the Authority Board of Directors.

Various sources of funds including Federal contracts for two launches that are scheduled to occur fiscal year 2009, other federal contracts for studies and technical support, commercial contracts from launch companies, and the \$93,000 Commonwealth of Virginia fiscal year 2009 appropriation along with existing cash assets, are expected to meet the Authority's fiscal year 2009 operating budget with nominal residuals being applied to operating reserves at the close of fiscal year 2009. Any additional contributions from Maryland will augment the above sources providing for additional stability and for potential additional employees to meet the increasing demand. Operating expenses associated with the infrastructure development at MARS in support of the NASA COTS program and primary launch base for Taurus II will be accommodated as a part of the normal administrative and coordination expenses being funded by the VPBA.

It remains essential that stabilizing funding from non-operating 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 flight ventures. With Virginia's capture of the primary launch base for future cargo flights, the ISS will provide significant revenue to the Authority after 2010 but much of that revenue will be offset by increased responsibilities for operation and maintenance of Authority owned facilities.

FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2008

ASSETS

Current assets:	
Cash (Note 2)	\$ 683,709
Accounts receivable	326,012
Other assets	<u>27,512</u>
Total current assets	<u>1,037,233</u>
Capital assets (Note 3):	
Office furniture	15,505
Computer equipment	33,103
Machinery and equipment	137,525
Land improvements	175,000
Service tower - 0-A	1
Launch pad - 0-B	<u>2,104,848</u>
Sub-total	2,465,982
Less: accumulated depreciation	<u>(1,039,304)</u>
Net capital assets	<u>1,426,678</u>
Total assets	<u>\$ 2,463,911</u>

LIABILITIES

Current liabilities:	
Accounts payable & accrued expenses	\$ 61,851
Deferred revenue	45,769
Due to Old Dominion University Research Foundation (Note 4)	<u>259,866</u>
Total current liabilities	<u>367,486</u>

NET ASSETS

Invested in capital assets	1,426,678
Unrestricted	<u>669,747</u>
Total net assets	<u>\$ 2,096,425</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, 2008

Operating revenues:	
Service fees	\$ 187,500
Operating expenses:	
Administration	324,927
Depreciation	129,425
Other	<u>79,154</u>
Total operating expenses	<u>533,506</u>
Operating loss	<u>(346,006)</u>
Nonoperating revenues (expenses):	
State appropriation	95,000
Federal grants	584,784
Private grants	36,731
Pass-through grant	195,328
Expenses related to grants	<u>(727,958)</u>
Net nonoperating revenues	<u>183,885</u>
Net loss	(162,121)
Net assets - beginning of year	<u>2,258,546</u>
Net assets - end of year	<u>\$ 2,096,425</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, 2008

Cash flows from operating activities:	
Cash received from service fees	\$ 187,500
Cash paid to employees	(239,004)
Cash paid to suppliers	<u>(124,122)</u>
Net cash used in operating activities	<u>(175,626)</u>
Cash flows from noncapital financing activities:	
Cash received from state appropriation	95,000
Cash received for sponsored research	1,117,025
Cash payments for sponsored research	<u>(931,661)</u>
Net cash provided by noncapital financing activities	<u>280,364</u>
Cash flows from capital financing activities:	
Acquisition of property and equipment	<u>(125,025)</u>
Net decrease in cash and cash equivalents	(20,287)
Cash and cash equivalents - beginning of year	<u>703,996</u>
Cash and cash equivalents - end of year	<u>\$ 683,709</u>
Reconciliation of net income to net cash provided by operating activities:	
Net operating loss	\$ (346,006)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	129,425
Changes in assets and liabilities:	
Increase in other assets	(195)
Increase in accounts payable and accrued expenses	<u>41,150</u>
Net cash provided by operating activities	<u>\$ (175,626)</u>

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, 2008

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 pronouncement 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, 2008, cash balances of \$683,709 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, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Acquired</u> <u>Increased</u>	<u>Balance</u> <u>June 30, 2008</u>
Improvements other than buildings	\$2,104,849	\$ -	\$2,104,849
Land improvements	175,000	-	175,000
Office equipment	15,505	-	15,505
Computer equipment	33,103	-	33,103
Machinery and equipment	<u>12,500</u>	<u>125,025</u>	<u>137,525</u>
Total at historical cost	<u>2,340,957</u>	<u>125,025</u>	<u>2,465,982</u>
Less: Accumulated depreciation			
Improvements other than buildings	\$ 789,318	\$105,242	\$ 894,560
Land improvements	69,855	11,667	81,522
Office equipment	15,504	-	15,504
Computer equipment	32,285	761	33,046
Machinery equipment	<u>2,917</u>	<u>11,755</u>	<u>14,672</u>
Total accumulated depreciation	<u>909,879</u>	<u>129,425</u>	<u>1,039,304</u>
Capital assets, net	<u>\$1,431,078</u>	<u>\$ (4,400)</u>	<u>\$1,426,678</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:

Improvements other than buildings	20 years
Land improvements	15 years
Office equipment	7 years
Computer equipment	5 years
Machinery and equipment	5 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. OPEARTING LEASE COMMITMENT

As of June 30, 2008, 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, 2008, are expected to be as follows:

2009	\$ 7,079
2010	11,502
2011	16,811
2012	22,120
2013	26,544
2014	<u>22,120</u>
	<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

October 24, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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, 2008, as listed in the table of contents. These financial statements are the responsibility of the Virginia Commercial Space Flight 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, 2008, 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 1 through 6 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 Virginia Commercial Space Flight 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 over financial reporting 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 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.

Report Distribution and Exit Conference

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.

We discussed this report with management at an exit conference held on October 22, 2008.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Norfolk, Virginia

BOARD MEMBERS

Vincent C. Boles, Chairman

Patrick O. Gottschalk, Vice-Chairman

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