Financial Statements
Year Ended
June 30, 2013

Virginia Commercial Space Flight Authority

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Virginia Commercial Space Flight Authority

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Certified Public Accountants and Advisors

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Report on the Financial Statements

We have audited the accompanying financial statements of the ***Virginia Commercial Space Flight Authority*** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ***Virginia Commercial Space Flight Authority's*** basic financial statements as listed in the table of contents.

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 opinions 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 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the ***Virginia Commercial Space Flight Authority*** as of and for the year ended June 30, 2013, and the respective changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the ***Virginia Commercial Space Flight Authority'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 ***Virginia Commercial Space Flight Authority's*** internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 12 to the financial statements, net position **-** beginning of year has been restated to correct a misstatement. Our opinion is not modified with respect to this matter

Dixon Hughes Goodman LLP

Newport News, Virginia
October 25, 2013

June 30, 2013

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, 2013. 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 as a political subdivision of the Commonwealth of Virginia, by Chapter 758 of the 1995 Acts of Assembly. It operates as an independent entity in accordance with the provisions of the *Code of Virginia, Title 2.2, Chapter 22, Sections 2.2-2201 et.sequence* as amended. The Authority's legislated purpose is to (i) disseminate knowledge pertaining to scientific and technological research and development among public and private entities; (ii) promote Science, Technology, Engineering, and Math (STEM) education; and (iii) promote industrial and economic development through the development and promotion of the commercial space flight industry. A Board of Directors, composed of 9 members, manages the Authority.

The Authority is considered a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight 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 Position, the Statement of Revenue, Expenses and Changes in Net Position, the Statement of Cash Flows and Notes to the Financial Statements. The following analysis discusses elements from these statements, as well as on overview of the Authority's activities.

Statement of Net Position

The Statement of Net Position presents the Authority's Assets, Liabilities and Net Position as of the end of the fiscal year. The purpose of this statement is to present readers a fiscal snapshot at June 30, 2013. From the data presented, readers of the Statement of Net Position 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.

		2013		2012 (As Restated)		Change
Assets:						
Current assets	$	5,182,996	$	8,184,676	$	(3,001,680)
Capital assets, net of accumulated depreciation		109,649,455		70,388,771		39,260,684
Total assets	$	114,832,451	$	78,573,447	$	36,259,004
Liabilities:						
Total current liabilities	$	5,233,369	$	8,724,473	$	(3,491,104)
Total long-term liabilities		4,968,092		-		4,968,092
Total liabilities	$	10,201,461	$	8,724,473	$	1,476,988
Net Position:						
Invested in capital assets	$	109,649,455	$	70,388,771	$	39,260,684
Unrestricted		(5,018,465)		(539,797)		(4,478,668)
Total net position	$	104,630,990	$	69,848,974	$	34,782,016

The decrease in current assets of $3,001,680 is primarily associated with a decrease in accounts receivable related to infrastructure development of $2,612,730, a decrease in accounts receivable related to NASA launch operations support of $243,734 and a decrease in cash funds available of $153,895. Other current assets consisting of prepaid insurance costs and security deposits on leased property increased $8,679. The increase in capital assets of $39,260,684 is a result of an investment in construction-in-progress of additional launch facilities at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility, Virginia as further discussed under Significant Events. The increase in capital assets is net of depreciation expense of $383,012 charged against operations for the fiscal year.

The decrease in current liabilities of $3,491,104 is primarily associated with a decrease in accounts payable of $2,655,446, a decrease in amounts due the Authority's administrative and fiscal agent of $808,441, and a decrease in unearned revenue of $27,217. The decrease in current liabilities is primarily associated with the construction-in-progress discussed in the previous paragraph. The increase in long-term liabilities of $4,968,092 is due to the Authority entering a long-term debt obligation with the Commonwealth of Virginia through a Transportation Partnership Opportunity Fund Loan related to Pad 0A infrastructure development.

The decrease in unrestricted net position is a result of the change in net position for the fiscal year exclusive of depreciation charges less further investment in capital assets during the period.

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

Statement of Revenue, Expenses and Changes in Fund Net Position

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

Operating revenue and expenses generally represent the activity associated with rocket launch activities and cost of overall administration of the Authority and depreciation of its capital assets. Nonoperating revenue and expenses generally relate to funds received from Commonwealth of Virginia appropriations and grants and federal and private agreements associated with the development of space launch capabilities at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility located on the Eastern Shore of Virginia.

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

	2013	2012 (As Restated)	Change
Total operating revenue	$ 12,061,720	$ 9,000	$ 12,052,720
Total operating expenses	20,513,091	2,748,896	17,764,195
Net operating loss	(8,451,371)	(2,739,896)	(5,711,475)
Net nonoperating revenue	17,643,934	16,527,082	1,116,852
Capital contributions	25,589,453	-	25,589,453
Net income	34,782,016	13,787,186	20,994,830
Total net position - Beginning of year, as restated	69,848,974	56,061,788	13,787,186
Total net position - End of year	$ 104,630,990	$ 69,848,974	$ 34,782,016

The increase in operating revenue of $12,052,720 is due to the increase in operational activity at Launch Pad 0B and the commencement of operational activity at Launch Pad 0A at the Mid-Atlantic Regional Spaceport during fiscal year 2013 as further discussed under Significant Events. Operating expenses increased $17,764,195 as subcontracted services and personnel efforts increased in functions associated with operations, maintenance and administrative activities.

The increase in nonoperating revenue is primarily due to an increase in the Commonwealth of Virginia Appropriation and an increase in Commonwealth of Virginia grants related to the launch facility infrastructure development at the Mid-Atlantic Regional Spaceport. These increases were off-set by a decrease in private contracts associated with the development of launch capabilities.

Capital contributions represent the payment for the purchase of certain Launch Pad 0A assets by the Commonwealth of Virginia, on behalf of The Authority, from Orbital Sciences Corporation in accordance with the Second Memorandum of Understanding by and among the Authority, the Commonwealth of Virginia and Orbital Sciences Corporation executed in September 2012. The purchased assets have been capitalized and are reflected in the accompanying Statement of Net Position as construction-in-progress.

Prior period adjustments - net represents the impact of prior period adjustments related to Pad 0B assets that were either not properly transferred out of construction-in-progress when placed in service or erroneously expensed when purchased.

For more detailed information see the accompanying Statement of Revenue, Expenses and Changes in Net Position.

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 flows from operating activities reflect the uses to support the essential mission and administration of the Authority. The primary sources are from launch service fees and launch support activities. The primary uses are payments to contracted personnel, including salaries, wages, and fringe benefits, payments to suppliers and subcontractors. Cash flows from noncapital financing activities reflect the nonoperating sources and uses of cash. The primary sources are $9,500,000 from the Commonwealth of Virginia appropriation and sponsored activities of $1,022,576 associated with launch pad infrastructure development and associated facilities. The primary use is to support the tasking associated with sponsored activities and to support cash requirements of operations. Cash flows received from capital financing activities is from federal contract revenue of $806,579, state bond and state grant revenue of $8,217,976, capital contributed by the Commonwealth of Virginia in the amount of $25,589,453 and long-term debt in the amount of $4,968,092. The primary uses were for investment in capital assets and funding of enhanced launch capability development reflected as construction-in-progress.

	2013	2012	Change
Cash flows from operating activities	$ (6,862,682)	$ (2,752,856)	$ (4,109,826)
Cash flows from noncapital financing activities	3,304,453	11,286,964	(7,982,511)
Cash flows from capital financing activities	3,404,334	(11,528,957)	14,933,291
Net change in cash and cash equivalents	$ (153,895)	$ (2,994,849)	$ 2,840,954

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 0B and Launch Pad 0A at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility on the Eastern Shore of Virginia. In fiscal year 2013, construction costs of $40,556,039 were incurred in the development of enhanced launch capabilities on Launch Pad 0A and improvements to Launch Pad 0B. For more detailed information on these development activities, see the discussion in Significant Events. During FY2013, the Authority entered a long-term debt obligation with the Commonwealth of Virginia through a Transportation Partnership Opportunity Fund Loan.

Significant Events

During fiscal year 2013, the Authority, 'Virginia Space,' has substantially completed construction activities and certification testing of the Medium Class Launch Facility (MCLF) at the Mid-Atlantic Regional Spaceport (MARS) Launch Pad 0A. The new Launch Pad 0A provides launch capability for the Orbital *Antares* medium-class liquid fueled launch vehicle and other Medium-to-Heavy Class launch vehicles representing new capability at MARS.

MARS Launch Pad 0A is the first MCLF built as a completely new development from the ground up in the United States in over thirty years. Total cost of the new facilities being developed at the NASA Wallops Flight Facility for this larger, Medium Class of launch vehicles is in excess of $145,000,000. Of the current "Estimate-At-Completion" cost of development at Wallops, the Virginia Space development cost for MARS Launch Pad 0A systems will be approximately $120,000,000.

In addition to the Pad 0A development, Virginia Space completed modifications to and certified Launch Pad 0B for the launch of the NASA Lunar Atmosphere and Dust Environment Explorer (LADEE) to the Moon on the new Orbital Sciences Corporation *Minotaur V* launch vehicle. These Pad 0B enhancements now enable Virginia Space to provide launch services to the entire family of USAF orbital *Minotaur* launch vehicles as well as a broader family of Small-to-Medium Class solid propellant launch vehicles.

The substantial completion of MARS Launch Pad 0A and the upgrades at MARS Launch Pad 0B in FY 2013 culminated in more operational successes in one year for Virginia Space than ever in its history. The first major operational activity to take place at MARS Launch Pad 0A was the Hot Fire Test of the new *Antares* launch vehicle by Orbital Sciences Corporation, which occurred on February 22, 2013. The *Antares'* rocket engines were fired for nearly 30 seconds on the pad to run through a prolonged operational test of the two AJ-26 engines, including validating critical design for required mass flow rate and Thrust Vector Control (TVC) algorithms. Despite this extended length of time at operational levels of thrust and MCLF exposure to the resultant heat and acoustic shock waves, damaging effects to Pad 0A were minimal due to robust design and construction, and the pad was quickly readied for the next operation, the Risk Reduction Test Flight of *Antares* 29 days later.

The *Antares* Test Flight, A-ONE Mission, was successfully conducted on April 21, 2013. The goal of the Test Flight was to demonstrate the operational *Antares* launch system, from roll-out of the launch vehicle from the NASA Horizontal Integration Facility (HIF), through emplacement on the MARS Launch Pad 0A and fueling, to launch and delivery of a simulated payload to a target orbit of 250 km x 300 km with an inclination of 51.6 degrees. The next *Antares* launch was the *Antares-Cygnus* Commercial Orbital Transportation Services (COTS) Demonstration Flight, ORB-D1 Mission, to the International Space Station (ISS), on September 18, 2013. The COTS Demonstration Flight was the final operational milestone under the NASA COTS contract with Orbital Sciences Corporation.

The NASA LADEE Mission launch to the Moon from MARS Launch Pad 0B took place on September 6, 2013. The LADEE spacecraft was launched on the first *Minotaur V* launch vehicle built by Orbital Sciences Corporation. LADEE is a robotic mission that will orbit the Moon to gather detailed information about the lunar atmosphere, conditions near the surface and environmental influences on lunar dust. The *Minotaur V* launch vehicle was the largest solid propellant vehicle ever launched from MARS or NASA Wallops and the first Moon mission launched from Virginia

Upcoming launch activity at MARS includes a Department of Defense (DOD), Operationally Responsive Space (ORS) Office, and USAF Space Development and Test Wing (SDTW) mission scheduled to launch the Operationally Responsive Satellite Number Three (ORS-3) in late calendar year 2013. The ORS-3 Mission was scheduled intentionally to be conducted shortly after and in conjunction with the LADEE launch to demonstrate the responsiveness of the of the launch vehicle, satellite, and launch site in meeting National needs. The ORS-3 Mission will mark the fifth launch of a *Minotaur I* launch vehicle from MARS since 2006 from MARS Launch Pad 0B.

NASA is also tentatively scheduled to launch the first Commercial Resupply Services Mission (CRS-1) to the ISS from MARS Launch Pad 0A in mid-December 2013. The NASA CRS contract contains eight cargo resupply missions to the ISS through the year 2016 to deliver up to 20,000 kg (44,000 lbs.) of supplies to the ISS under the CRS contract with NASA. All of these CRS contract flights are manifested to launch from MARS Launch Pad 0A.

The industry and public awareness of the increased investment and tempo of operations at the Virginia Space MARS facilities continues to stimulate interest by companies seeking to expand their space access business to orbits best served from Wallops Island. The interest spans both the solid and liquid fueled launch vehicle providers servicing the satellite and human space flight markets. The Government market for launch of satellites to mid-inclination orbits served by the MARS facilities continues to grow.

Customers, Federal Congressional members, and Commonwealth of Virginia General Assembly members who have attended site visits of MARS and personally spoken with the Executive Director feel confident in the leadership and direction of Virginia Space. Capitalizing on the market and public momentum, Virginia Space has considerably advanced potential new business with five major launch corporations and the signing of a new Memorandum of Understanding (MOU) between the gubernatorial offices of Virginia and Alaska. The MOU sanctions and encourages coordination between the Commonwealth of Virginia and State of Alaska spaceports to optimize efficiencies for customers through common launch operations and processes between the two spaceports.

In fiscal year 2013, in order to further improve operational processes throughout the organization, Virginia Space implemented new enterprise wide training procedures which has resulted in increased operational efficiency and training in both the Norfolk and Wallops offices. For certifications, Virginia Space completed the MARS FAA recertification for launches to orbit, which is valid for a period of five years. MARS is only one of four spaceports in the United States licensed by the FAA Commercial Space Transportation Office to launch to orbit allowing it to compete for the Small-to-Medium Class launch vehicle market providing access to inclined angle, Low Earth Orbit (LEO). To make major cash flow from launches more predictable and stable, Virginia Space recently developed, negotiated, and inked a long-term Launch Support Agreement (LSA) with Orbital Sciences Corporation defining MARS Launch Pad 0A operations with the *Antares* launch vehicle.

Amendments to the Virginia Commercial Space Flight Authority Act (HB813/SB284, 2012 Acts of the Assembly), *Code of Virginia, Title 2.2, Chapter 22, Section 2.2-2201 et. Sequence,* that became effective July 1, 2012 made significant changes to the Virginia Space organization structure and administration, as well as providing increased funding for fiscal year 2013/2014. The organizational and administrative changes required the Authority to transition to a more independent mode of operation with respect to Human Resource management, employee compensation and benefits, accounting and audit responsibility, and reporting to the Commonwealth. The implementation of these changes consumed significant human capital for the employees of the Authority and required the use of several consultant organizations to assist in the implementation of the legislated changes. The increased funding commensurate with the increased responsibilities associated with infrastructure, business expansion, and legislated organizational changes provided the ability to hire much needed staff. During fiscal year 2013, the initial and long term Executive Director retired and a replacement was hired and appointed by the Board of Directors. In addition, a new Director for MARS, a Launch Pad 0A Manager, a Senior Contracting Specialist, an Office Manager, and an Engineer were hired to fill critical shortages In order to accommodate its necessary growth in administrative staff, Virginia Space moved its Norfolk Office within the same building to a location appropriate for its size, mission, and added responsibilities. Following initial certification and test flight operations at MARS Launch Pad 0A, a work flow and operations review was conducted to identify the appropriate level of maintenance and operations support required to sustain reliable launch capability in a more predictable, efficient, and affordable manner. Contracts for maintenance and operations support were reviewed and evaluated and revised and renewed to be consistent with the efficiency reviews for appropriate levels of facility maintenance, certification, and operations support.

Virginia plays a key role in National security and assured access to space, as one of only four states in the United States that is licensed by the FAA to launch spacecraft into orbit. MARS is only one of two locations that provide cargo resupply services to the ISS. MARS is also only one of three locations that currently provide responsive space support for DOD. With the significance of these important National missions, Virginia Space Executive Staff is persistently pursuing an increase in funding from the Commonwealth and creation of a new State-Federal partnership fund to finance launch facility improvements and maintain leading edge launch capabilities.

Revenue from launch operations conducted on MARS Launch Pad 0A and MARS Launch Pad 0B will continue to provide approximately one fourth of the revenue required offset the total cost of operation of Virginia Space. The Virginia appropriated funds anticipated over the next four years, along with the revenue from scheduled launches will support expected needs for maintenance and operations. Reduced need for appropriated funds will require an increased tempo of launch activity from the MARS facilities or alternatively, a significant change in the Virginia Space operating and pricing models in the longer term. Continued investment by the Commonwealth should be a reasonable expectation in order to continue to achieve the significant economic, job, educational, and notoriety benefit that the activities of Virginia Space produce.

Contacting the Authority's Financial Management

This financial report is designed to provide our users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the Virginia Commercial Space Flight Authority, 4111 Monarch Way, Suite 303, Norfolk, Virginia 23508-2559.

Virginia Commercial Space Flight Authority

Statement of Net Position

June 30, 2013

Assets	
Current assets	
Cash (Note 2)	$ 920,854
Accounts receivable	4,228,943
Other current assets	33,199
Total current assets	5,182,996
Nondepreciable capital assets (Note 3)	
Construction-in-progress - launch facilities	106,494,881
Depreciable capital assets - net accumulated depreciation (Note 3)	
Launch Pad - 0B	5,380,917
Machinery and equipment	188,036
Land improvements	175,000
Computer equipment	148,224
Office furniture	15,505
	5,907,682
Less accumulated depreciation	(2,753,108)
	3,154,574
	109,649,455
	$ 114,832,451
Liabilities and Net Position	
Current liabilities	
Accounts payable and accrued expenses	$ 1,164,956
Unearned revenue	11,945
Due to Old Dominion University Research Foundation (Note 4)	4,056,468
Total current liabilities	5,233,369
Long-term liabilities	
Long-term debt (Note 5)	4,968,092
Total liabilities	10,201,461
Net position	
Net investment in capital assets	109,649,455
Unrestricted	(5,018,465)
Total net position	104,630,990
	$ 114,832,451

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

Virginia Commercial Space Flight Authority

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2013

Operating revenue	
Commercial launch fees	$ 1,500,000
Launch support revenue - government	214,362
Launch support revenue - private	10,347,358
Total operating revenue	12,061,720
Operating expenses	
Administration	2,105,362
Subcontract services	17,687,165
Depreciation	383,012
Other	337,552
Total operating expenses	20,513,091
Net operating loss	(8,451,371)
Nonoperating revenue (expenses)	
State appropriation	9,500,000
State grants	7,357,440
Federal contracts	780,705
State bond revenue	78,038
Private contracts	18,499
Expenses related to grants and contracts	(1,785,423)
Reallocation of revenue and expenses - net (Note 10)	1,694,675
Total nonoperating revenue	17,643,934
Capital contributions (Note 11)	25,589,453
Change in net position	34,782,016
Net position - beginning of year - as previously reported	69,733,759
Prior period adjustments - net (Note 12)	115,215
Net position - beginning of year - as restated	69,848,974
Net position - end of year	$ 104,630,990

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

Virginia Commercial Space Flight Authority

Statement of Cash Flows

Year Ended June 30, 2013

Cash flows from operating activities	
Cash received from customers	$ 11,307,262
Cash paid to employees	(1,470,994)
Cash paid to suppliers	(16,698,950)
Net cash from operating activities	(6,862,682)
Cash flows from noncapital financing activities	
Cash received from state appropriation	9,500,000
Cash received for grants and contracts	1,022,576
Cash payments for grants and contracts	(7,218,123)
Net cash from noncapital financing activities	3,304,453
Cash flows from capital financing activities	
Cash received from federal contracts	806,579
Cash received from state grants	8,060,244
Cash received from state bonds	157,732
Cash received from capital contribution	25,589,453
Cash received from long-term debt	4,968,092
Investment in capital assets	(178,132)
Investment in construction-in-progress	(35,999,634)
Net cash from capital financing activities	3,404,334
Net change in cash	(153,895)
Cash - beginning of year	1,074,749
Cash - end of year	$ 920,854

Reconciliation of net operating loss to net cash from operating activities:	
Net operating loss	$ (8,451,371)
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	383,012
Changes in assets and liabilities:	
Increase in accounts receivable	(754,458)
Increase in other current assets	(8,679)
Increase in accounts payable and accrued expenses	213,170
Increase in Due to Old Dominion University Research Foundation	1,755,644
Net cash from operating activities	$ (6,862,682)

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

1. Organization and Nature of Activities

Virginia Commercial Space Flight Authority (Authority) was established as a political subdivision of the Commonwealth of Virginia, by Chapter 758 of the 1995 Acts of Assembly. It operates as an independent entity in accordance with the provisions of the *Code of Virginia, Title 2.2, Chapter 22, Sections 2.2-2201 et.sequence* as amended. The Authority's legislated purpose is to (i) disseminate knowledge pertaining to scientific and technological research and development among public and private entities; (ii) promote Science, Technology, Engineering, and Math (STEM) education; and (iii) promote industrial and economic development through the development and promotion of the commercial space flight industry. A Board of Directors, composed of 9 members, manages the Authority.

The Authority is considered a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

2. Summary of Significant Accounting Policies

Financial Reporting Entity

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.

Basis of Accounting

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

Change in Accounting Principles

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, or Net Position. The Authority had no deferred outflows or inflows of resources at June 30, 2013.

Credit Risk and Concentration

At June 30, 2013, cash balances of $920,854 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 the Federal Deposit Insurance Corporation.

One customer has contracted with the Authority for launch pad facilities and operations support at Pad 0A. The launch facilities at Pad 0A are substantially complete and are undergoing final tests and will be used in future launches of mid-class launch vehicles.

Accounts Receivable and Allowance for Doubtful Accounts

Receivables include amounts due from contracts and grants for reimbursable expenditures in excess of revenue at year-end. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenue net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. There was no allowance for doubtful accounts at June 30, 2013.

Classification of Revenue and Expenses

The Authority presents its revenue and expenses as operating or nonoperating based on the following criteria:

Operating revenue and expenses generally represent the commercial launch fees and launch support revenue received under government and private contracts and the cost of the overall administration of the Authority and the depreciation of its capital assets. Nonoperating revenue and expenses generally relate to funds received from private, state and federal cooperative agreements associated with the development of space launch capabilities.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 25, 2013, the date the financial statements were available to be issued.

3. Capital Assets

The schedule below shows the breakdown of capital assets by category:

		Balance July 1, 2012 (As Restated)		Acquired Increased		Deleted (Decreased)		Balance June 30, 2013
Nondepreciable capital assets:								
Construction-in-progress	$	67,304,570	$	39,433,700	$	(243,389)	$	106,494,881
Depreciable capital assets:								
Launch Pad 0B		5,105,665		275,253		-		5,380,918
Machinery and equipment		125,025		63,011		-		188,036
Land improvements		175,000		-		-		175,000
Computer equipment		33,103		115,121		-		148,224
Office furniture		15,505		-		-		15,505
Total depreciable assets		5,454,298		453,385		-		5,907,683
Less – accumulated depreciation								
Launch Pad 0B		2,112,659		334,497		-		2,447,156
Machinery and equipment		80,699		29,869		-		110,568
Land improvements		128,188		11,667		-		139,855
Computer equipment		33,046		6,979		-		40,025
Office furniture		15,505		-		-		15,505
Total depreciation		2,370,097		383,012		-		2,753,109
Capital assets - net	$	70,388,771	$	39,504,073	$	(243,389)	$	109,649,455

Capital assets are generally defined by the Authority as assets with an initial cost of $5,000 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:

	Years
Launch pad 0B	7 - 20
Machinery and equipment	5 - 7
Land improvements	15
Computer equipment	5
Office furniture	5 - 7

At June 30, 2013, the Authority was in the process of constructing additional launch facilities at Wallops Island, Virginia. These facilities and infrastructure were not yet in service at June 30, 2013, and accordingly no depreciation of these items is included in the accompanying financial statements.

4. Due to Old Dominion University Research Foundation

The Old Dominion University Research Foundation (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. The Research Foundation acts as the Authority's fiscal agent and the Authority paid the Research Foundation $28,788 for its services in 2013.

5. Long-term Debt

In March 2013, the Authority entered into a long-term debt agreement with the Virginia Department of Transportation for an interest-free note in an amount not to exceed $5,000,000. At June 30, 2013, the Authority had received $4,968,092 under the note. The Authority has pledged, as security for the loan, revenue and capital recovery fees generated from launches conducted by the Authority spaceport, any excess revenue from launch operations on its launch pads, and any other funds made available to the Authority. Repayment of the loan is to occur primarily upon successful launches commencing on or before January 15, 2015, but ending no later than March 13, 2020. At a minimum, the Authority will make a $100,000 loan payment for each launch currently under contract with a private client. For future launches not currently under contract, the Authority will make a $1,000,000 loan payment for every launch.

6. Related Party

The Authority entered in a Limited Liability Corporation agreement with DynSpace, LLC in 1998. This agreement created a joint venture entity called Flight Center One LLC (FCO) in July 1999. Finalization of the agreement was incumbent on execution of a facilities lease between the Authority and FCO and significant investment by the Authority and DynSpace, LLC into FCO. Neither of these contingent requirements was ever satisfied and therefore FCO never became operational. DynSpace, LLC was converted by the parent corporation, DynCorp Inc., into DynSpace Corporation. DynCorp Inc. and DynSpace Corporation were both acquired by Computer Sciences Corporation (CSC) in March 2003. DynSpace Corporation is no longer in good standing, the last annual report for DynSpace Corporation was filed in 2008 and CSC no longer reports DynSpace Corporation as a subsidiary. CSC expressed no interest in fulfilling the prerequisite requirements for FCO or for continuing a relationship under DynSpace Corporation. FCO was cancelled by the Virginia State Corporation Commission in April 2009. Since DynSpace, LLC and FCO are no longer in place, they are no longer considered a related party to the Authority.

7. Retirement and Pension Systems

One contracted member of personnel of the Authority participates 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. The Commonwealth of Virginia, not the Authority, had overall responsibility for contributions to this plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia’s Comprehensive Annual Financial Report (CAFR). Other full-time contracted personnel received fixed contributions of 11 percent, which could be invested through an Old Dominion University Research Foundation-sponsored 403(b) Tax Sheltered Annuity Plan or received as taxable income.

Effective June 16, 2013, the Authority became a bona-fide employer and certain previously contracted personnel became Authority employees. Going forward, these Authority employees now receive a fixed contribution of 11 percent of their base salary, which is invested through an Authority-sponsored 401(a) Plan.

8. Commitments

At June 30, 2013, the Authority occupied office space and warehouse space under various lease agreements with initial periods ranging from three to seven years through 2019.

Estimated future lease commitments for these leases are expected to be as follows:

2014	$	126,597
2015		81,012
2016		69,425
2017		68,854
2018		68,282
Thereafter		56,902
	$	471,072

Total rent expense for 2013 was $69,572.

At June 30, 2013, the Authority has contractual commitments of approximately $6.8 million for work remaining to be performed under outstanding contracts.

9. 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; nonperformance 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. In addition to the coverage provided by VaRISK 2, the Authority has General Liability coverage through a commercial policy issued by XL Specialty Insurance Company of Exton, PA in the amount of $10,000,000.

10. Reallocation of Revenue and Expenses - Net

Based on the agreements in place at June 30, 2012, the Authority was to be reimbursed for certain Pad 0A construction costs under private contracts. Therefore, excess expenditures under the private contracts were recorded as accounts receivable and private nonoperating revenue. During 2013, the private contracts were modified and new agreements were executed and it was determined the Commonwealth of Virginia would be responsible for the accounts receivable. Therefore, during 2013, $1,771,254 was re-classified from private contract revenue to state funded revenue.

Based on these same agreements at June 30, 2012, the Authority also expensed $3,465,929 related to Pad 0A construction costs that were expected to be reimbursed under the private contracts. During 2013, new agreements were executed and it was determined these previous costs were to be Pad 0A assets of the Authority. Therefore, $3,465,929 was reclassified as construction-in-progress during 2013.

11. Capital Contributions

During 2013, a Second Memorandum of Understanding by and among the Authority, the Commonwealth of Virginia, and Orbital Sciences Corporation (Orbital) was executed, whereby the Commonwealth of Virginia agreed to the purchase of certain Launch Pad 0A improvements from Orbital, on behalf of the Authority, for the total sum of $25,589,453. Therefore, $25,589,453 was recorded as an addition to construction-in-progress and capital contributions for the year ended June 30, 2013.

12. Prior Period Restatements

In prior years, the Authority's construction in progress was overstated, depreciable capital assets were understated and expenditures were overstated. There were assets constructed at Pad 0B that were either not properly transferred out of construction-in-progress when placed in service or erroneously expensed when purchased. The result of these errors was an overstatement of construction-in-progress of $2,088,473, an understatement of depreciable capital assets of $3,000,817, an understatement of accumulated depreciation of $797,129, and a net understatement of net position of $115,215 at June 30, 2012. Therefore, a prior period restatement was required to decrease construction-in-progress by $2,088,473, increase depreciable capital assets - net by $2,203,688 and increase net position - beginning of year by $115,215 for 2013. The restatement increased the change in net position by $115,215 at June 30, 2012.

The effect of the prior period adjustment on the balances previously reported at June 30, 2012, is as follows:

	Construction In-Progress	Depreciable Capital Assets	Accumulated Depreciation	Net Position - Beginning Of Year
Balance - as previously reported	$ 69,393,043	$ 2,453,481	$ 1,572,967	$ 69,733,759
Prior period restatement	(2,088,473)	3,000,817	797,129	115,215
Balance - as restated	$ 67,304,570	$ 5,454,298	$ 2,370,096	$ 69,848,974

13. Contingencies

Pursuant to the Second Memorandum of Understanding by and among the Authority, the Commonwealth of Virginia, and Orbital Sciences Corporation (Orbital) executed in September 2012, the Commonwealth of Virginia purchased certain Launch Pad 0A improvements from Orbital, on behalf of the Authority, for the total sum of $25,589,453 (see Note 11 for more information). The Second Memorandum of Understanding also provides for the Commonwealth of Virginia, under HB1301, to purchase, on behalf of the Authority, additional Launch Pad 0A assets up to $16.5 million subject to an independent third party review of the utility of those additional assets. The parties dispute the effect of this review, and Orbital has filed a civil complaint relating to the dispute. The complaint has not been formally served, and the parties are in ongoing discussions for resolution.

Following the completion of an Orbital test mission in April 2013, the Authority invoiced Orbital for $1.5 million as a test launch fee for its use of Launch Pad 0A, as provided for in the Second Memorandum of Understanding. In June 2013, Orbital made a partial payment of $549,518 and made another payment of $460,000, leaving an balance of $490,482 in accounts receivable as of the date that these financials were available to be issued, October 25, 2013. Orbital has disputed a portion of the costs, and the parties are also in ongoing discussions over payment of the amount remaining in accounts receivable.

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Virginia Commercial Space Flight Authority

Compliance Section

June 30, 2013

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

Board of Directors
Virginia Commercial Space Flight Authority

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 accompanying financial statements of the ***Virginia Commercial Space Flight Authority*** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise ***Virginia Commercial Space Flight Authority's*** basic financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ***Virginia Commercial Space Flight Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***Virginia Commercial Space Flight Authority's*** internal control. Accordingly, we do not express an opinion on the effectiveness of the ***Virginia Commercial Space Flight Authority's*** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ***Virginia Commercial Space Flight 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of ***Virginia Commercial Space Flight Authority*** in a separate letter dated October 25, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 25, 2013

Virginia Commercial Space Flight Authority
Norfolk, Virginia

Board Members

(through fiscal year ended June 30, 2013)

Vincent Boles, Chairman

John Broderick	Randall Burdette
Sean Connaughton	John Jester
J. Jack Kennedy	William Readdy
Carol Staubach	A. Thomas Young

Dale Nash, Executive Director