

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

FINANCIAL REPORT
FOR THE YEAR ENDED

JUNE 30, 2012



- TABLE OF CONTENTS -

	<u>Pages</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-5
FINANCIAL STATEMENTS:	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 12
Report of Independent Auditors	13 - 14
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 - 16
AUTHORITY OFFICIALS	17

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, 2012. 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 13 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 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, 2012. 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>2012</u>	<u>2011</u>	<u>Change</u>
<u>Assets</u>			
Current assets	\$ 8,184,674	\$ 12,699,237	\$ (4,514,563)
Capital assets, net of accumulated depreciation	<u>70,273,557</u>	<u>55,030,703</u>	<u>15,242,854</u>
Total assets	<u>78,458,231</u>	<u>67,729,940</u>	<u>10,728,291</u>
<u>Liabilities</u>			
Total current liabilities	<u>8,724,473</u>	<u>11,668,152</u>	<u>(2,943,679)</u>
<u>Net Assets</u>			
Invested in capital assets	70,273,557	55,030,703	15,242,854
Unrestricted	<u>(539,799)</u>	<u>1,031,085</u>	<u>(1,570,884)</u>
Total net assets	<u>\$ 69,733,758</u>	<u>\$ 56,061,788</u>	<u>\$ 13,671,970</u>

The decrease in current assets of \$4,514,563 is primarily associated with a decrease in accounts receivable related to infrastructure development of \$1,501,654 and a decrease in cash funds available of \$2,994,849. Other current assets consisting of prepaid insurance costs decreased \$18,060. The increase in capital assets of \$15,242,854 is a result of an investment in construction-in-progress of additional launch facilities at Wallops Island, Virginia as further discussed under Significant Events. The increase in capital assets is net of depreciation expense of \$134,770 charged against operations for the fiscal year.

The decrease in current liabilities of \$2,943,679 is primarily associated with an increase in accounts payable and accrued expenses of \$161,040 and an increase in amounts due the Authority's administrative and fiscal agent of \$1,579,728. These increases were off-set by a decrease in deferred revenue of \$4,684,447. The current liabilities are primarily associated with the construction-in-progress discussed in the previous paragraph. The decrease in unrestricted net assets is a result of the net income 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 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 revenues 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. Non-operating revenues and expenses generally relate to funds received from Commonwealth of Virginia grants and revenue bonds and federal and private cooperative agreements associated with the development of space launch capabilities at the Wallops Flight Facility located on the Eastern Shore of Virginia. Non-operating revenues and expenses also include activities associated with commercial agreements for the delivery of launch vehicle components.

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Total operating revenues	\$ 9,000	\$ 408,788	\$ (399,788)
Total operating expenses	<u>2,864,112</u>	<u>2,033,254</u>	<u>830,858</u>
Net operating loss	(2,855,112)	(1,624,466)	(1,230,646)
Net non-operating revenue	<u>16,527,082</u>	<u>30,998,717</u>	<u>(14,471,635)</u>
Net income	13,671,970	29,374,251	(15,702,281)
Total net assets – Beginning of year	<u>56,061,788</u>	<u>26,687,537</u>	<u>29,374,251</u>
Total net assets – End of year	<u>\$ 69,733,758</u>	<u>\$ 56,061,788</u>	<u>\$ 13,671,970</u>

Operating revenues decreased \$399,788 as there were no launches completed from the Authority's launch Pad 0-B at the Wallops Flight Facility during fiscal year 2012. Proceeds from the sale of a capitalized asset were \$9,000. Operating expenses increased \$830,858 as subcontracted services and personnel efforts increased in functions associated with operations, maintenance and administrative activities.

Non-operating revenue decreased as funds provided from State bond and grant revenues and federal cooperative agreements to support the development of enhanced launch capabilities at the Wallops Island location moved towards completion. The cost of this enhanced launch capability development has been capitalized and is reflected in the accompanying Statement of Net Assets as construction-in-progress. Other sources of net non-operating revenue are associated with commercial activities in the delivery of launch service capabilities.

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 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 the primary uses are payments to contracted personnel, including salaries, wages, and fringe benefits, payments to suppliers and subcontractors. Cash flows from non-capital financing reflects the non-operating sources and uses of cash. The primary sources are sponsored activities of \$39,101,533 associated with launch pad infrastructure development and associated facilities, launch capability studies, delivery and development of launch capabilities and \$1,500,000 from State appropriation. The primary use is to support the tasking associated with sponsored activities and to support cash requirements of operations. Cash flows from capital financing activities is from state bond revenues of \$1,183,934 and revenues from federal cooperative agreements of \$2,655,733 used for funding of enhanced launch capability development reflected as construction-in-progress.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Cash flows from operating activities	\$ (2,752,856)	\$ (1,509,732)	\$ (1,243,124)
Cash flows from non-capital financing activities	11,286,964	1,092,722	10,194,242
Cash flows from capital financing activities	<u>(11,528,957)</u>	<u>595,449</u>	<u>(12,124,406)</u>
Net change in cash and cash equivalents	<u>\$ (2,994,849)</u>	<u>\$ 178,439</u>	<u>\$ (3,173,288)</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 and Launch Pad 0-A at the Wallops Flight Facility on the Eastern Shore of Virginia. In fiscal year 2012, construction costs of \$15,377,624 were incurred in the development of enhanced launch capabilities on Launch Pad 0-A and improvements to Launch Pad 0-B. For more detailed information on these development activities, see the discussion in Significant Events. The Authority currently has no long-term debt obligations.

SIGNIFICANT EVENTS

During FY2012, the Authority continued final construction activities and began certification testing of Launch Pad 0-A, the new mid-class launch facility that will provide launch capability for substantially larger launch vehicles than had been previously supported from the Authority's Mid-Atlantic Regional Spaceport (MARS). In addition to the Pad 0-A development, the Authority completed modifications to and certified Launch Pad 0-B for the launch of the NASA Lunar Atmosphere and Dust Environment Explorer (LADEE) on a Minotaur V launch vehicle scheduled in mid-2013. These Pad 0-B enhancements will enable the Authority to provide launch services to the full family of Air Force Minotaur launch vehicles as well as the broader family of small-to-mid-class, solid propellant launch vehicles.

In June 2012, Air Force Space Development Test Wing (SDTW) and NASA successfully completed a Pathfinder Mission for the LADEE moon mission. All five inert stages of the Minotaur V vehicle were transported from Utah to MARS, transferred to specialized handling equipment, readied for integration, stacked on Pad 0-B, de-stacked, and transported back to Utah. NASA successfully demonstrated the readiness of the spacecraft encapsulation, transport, handling and the final integration of the LADEE moon orbiter with the Minotaur V launch vehicle while stacked on Pad 0-B. The launch is scheduled for mid-2013. This Pathfinder Mission demonstrated and certified to MARS systems and facilities for the conduct of the actual launch mission.

In addition to the LADEE Mission in mid-2013, the Department of Defense Operationally Responsive Space (ORS) Office and the Air Force SDTW announced that the Authority's MARS will be the launch site for their Operationally Responsive Satellites Numbers Three and Four (ORS-3 and ORS-4) also in 2013. These missions are scheduled to be conducted approximately four months apart 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 and ORS-4 missions will mark the fifth and sixth launch of a Minotaur I launch vehicle from MARS since 2006 from the Authority's Launch Pad 0-B.

FY 2012 marked the fourth year of the intensive and challenging development of a new mid-class, liquid fueled vehicle launch complex by the Authority. This new complex, known as Launch Pad 0-A, was begun following the announcement by Orbital Sciences Corporation of Dulles, VA that they had selected the Authority's Mid-Atlantic Regional Spaceport as the test and demonstration and follow-on operations launch

base for their new Antares launch system under NASA's Commercial Orbital Transportation System (COTS) Program and the subsequent NASA Cargo Re-supply Support contract for eight (8) cargo re-supply missions to the International Space Station (ISS) through the year 2015. Since the initial announcement in June 2008, the total number of launches of Orbital's new Antares vehicle has grown to 10 total through 2015.

A primary focus of the Authority during the year ending June 30, 2012 was the completion of the final construction of the new Launch Pad 0-A that includes a liquid fueling system for loading of liquid and cryogenically fueled launch vehicles. As construction of the many systems was completed, the Authority began the comprehensive test and certification of Pad 0-A as required by the support requirements for mid-class vehicles, regulatory, and licensing agencies. Final certification and readiness of Pad 0-A is expected to be complete in the first quarter of FY2013 with on-pad operations beginning shortly thereafter. When completed and certified, Pad 0-A will be the first mid-to-heavy class launch pad to be built as a completely new development in the United States in over twenty years. The total cost of the new facilities being developed at the NASA Wallops Flight Facility for this larger class of launch vehicles will be in excess of \$145,000,000. Of the current "Estimate-At-Completion" cost of development at Wallops, the Authority's development cost for the Pad 0-A systems will be approximately \$105,000,000. Final Antares validation, including on-Pad cold flow and hot fire tests, as well as the initial Risk Reduction Test Flight launch could drive additional costs to complete, modify (if necessary) and fully validate all pad systems.

The first operational activity to take place at Pad 0-A will be the cold flow and hot fire testing of the Antares vehicle by Orbital scheduled to occur in the second quarter FY2013. Following this on-Pad test firing of the Antares rocket engines, a Risk Reduction Test Flight will be conducted about two months later. The launch of the first demonstration flight to International Space Station (ISS) is scheduled at the end of the second quarter FY2013. The cargo re-supply missions to ISS are scheduled to begin in early 2013.

The industry and public awareness of the increased investment and tempo of activities at MARS has stimulated interest by several companies seeking to expand their space access business to orbits best served from Wallops Island. The interest spans both 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 MARS continues to grow with manifested launches into FY2014 and beyond.

Amendments to the Virginia Commercial Space Flight Authority Act (HB813/SB284, 2012 Acts of the Assembly) and the Virginia Budget for FY2013 and FY2014 will provide changes to the Authority's organization structure and administration as well as enhanced levels of funding when they become effective on July 1, 2012. Funding for adequate staffing of the Authority to support the expansion in physical assets and growth in launch activities are provided in the Budget Bill.

Once the FY2013 funding is available, the Authority will actively pursue hiring of the critical staff needed to operate and administer the enhanced MARS facilities. In addition to the hiring of direct Authority staff, contractor support for critical elements of facility maintenance, certification, and operation will be expanded to meet the increased demands of the high pressure and cryogenic systems at Pad 0-A. Revenues from launch operations conducted on Pads 0-A and 0-B will continue to provide nominally one third of the revenue required offset the total cost of operation of the Authority.

The Virginia appropriated funds anticipated over the next five years along with the revenues from scheduled launches will support the Authority's expected needs for maintenance and operations over the same period. Reduced need for appropriated funds will require an increased tempo of launch activity from the Authority's facilities or alternatively, a significant change in the Authority's 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 the Authority produce.

* * * * *

FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2012

ASSETS	
Current assets	
Cash (Note 2)	\$ 1,074,749
Accounts receivable	7,085,405
Other current assets	<u>24,520</u>
Total current assets	<u>8,184,674</u>
Nondepreciable capital assets (Note 3)	
Construction-in-progress - launch facilities	69,393,043
Depreciable capital assets, net accumulated depreciation (Note 3)	
Launch pad - 0-B	2,104,848
Land improvements	175,000
Machinery and equipment	125,025
Computer equipment	33,103
Office furniture	<u>15,505</u>
	2,453,481
Less: Accumulated depreciation	(1,572,967)
	<u>70,273,557</u>
Total assets	<u>\$ 78,458,231</u>
LIABILITIES	
Current liabilities	
Accounts payable & accrued expenses	\$ 3,820,402
Deferred Revenue	39,162
Due to Old Dominion University Research Foundation	<u>4,864,909</u>
Total current liabilities	<u>8,724,473</u>
NET ASSETS	
Invested in capital assets	70,273,557
Unrestricted	<u>(539,799)</u>
Total net assets	<u>\$ 69,733,758</u>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

Operating revenues		
Other income – gain on sale of asset	\$	9,000
Operating expenses		
Administration		1,181,966
Subcontract services		1,494,079
Depreciation		134,770
Other		53,297
		<hr/>
Total operating expenses		2,864,112
Operating loss		<hr/> (2,855,112)
Non-operating revenues (expenses)		
State appropriation		1,500,000
State bond revenue		654,394
Federal contract revenue		1,685,682
State grants		12,619,801
Private contracts		31,164,115
Expenses related to grants		<hr/> (31,096,910)
Total non-operating revenues		<hr/> 16,527,082
Net Income		13,671,970
Net assets - beginning of year		<hr/> 56,061,788
Net assets - end of year	\$	<hr/> <hr/> 69,733,758

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Cash paid to employees	\$ (808,337)
Cash paid to suppliers	<u>(1,944,519)</u>
Net cash used in operating activities	<u>(2,752,856)</u>
Cash flows from noncapital financing activities:	
Cash received from state appropriation	1,500,000
Cash received for grants and contracts	39,101,533
Cash payments for grants and contracts	<u>(29,314,569)</u>
Net cash provided by noncapital financing activities	<u>11,286,964</u>
Cash flows from capital financing activities:	
Cash received from bond revenue	1,183,934
Cash received from federal contracts	2,655,733
Proceeds from sale of equipment	9,000
Investment in construction-in-progress	<u>(15,377,624)</u>
Net cash used in capital financing activities	<u>(11,528,957)</u>
Net decrease in cash and cash equivalents	(2,994,849)
Cash and cash equivalents - beginning of year	<u>4,069,598</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,074,749</u></u>
Reconciliation of net operating loss to net cash used in operating activities:	
Net operating loss	\$ (2,855,112)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	134,770
Changes in assets and liabilities:	
Increase in other current assets	(4,372)
Increase in accounts payable and accrued expenses	<u>(28,142)</u>
Net cash used in operating activities	<u><u>\$ (2,752,856)</u></u>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2012

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 13 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.

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 private, state and federal cooperative agreements associated with the development of space launch capabilities.

E. Concentration

One customer has contracted with the Authority for launch pad facilities and operations support at Pad 0-A. The launch facilities at Pad 0-A are currently under construction but are intended to be used in the future for similar launches of mid-class launch vehicles.

F. Receivables

Receivables include amounts due from contracts and grants for reimbursable expenditures in excess of revenues 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 as of June 30, 2012.

2. CASH

As of June 30, 2012, cash balances of \$1,074,749 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, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Acquired</u> <u>Increased</u>	<u>Deleted</u> <u>(Decreased)</u>	<u>Balance</u> <u>June 30, 2012</u>
Nondepreciable capital assets:				
Construction-in-progress	<u>\$54,015,419</u>	<u>\$15,377,624</u>	<u>\$ -</u>	<u>\$69,393,043</u>
Total nondepreciable capital assets	<u>54,015,419</u>	<u>15,377,624</u>	<u>-</u>	<u>69,393,043</u>
Depreciable capital assets:				
Launch Pad 0-B	2,104,848	-	-	2,104,848
Land improvements	175,000	-	-	175,000
Office equipment	15,505	-	-	15,505

Computer equipment	33,103	-	-	33,103
Machinery and equipment	137,525	-	(12,500)	125,025
Total depreciable assets	2,465,981	-	(12,500)	2,453,481
Less: accumulated depreciation				
Launch pad 0-B	\$ 1,210,287	\$ 105,243	\$ -	\$ 1,315,530
Land improvements	116,522	11,666	-	128,188
Office equipment	15,504	-	-	15,504
Computer equipment	33,046	-	-	33,046
Machinery and equipment	75,338	17,861	(12,500)	80,699
Total accumulated depreciation	1,450,697	134,770	(12,500)	1,572,967
Capital assets, net	\$55,030,703	\$ 15,242,854	\$ -	\$70,273,557

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:

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

As of June 30, 2012 the Authority was in the process of constructing additional launch facilities at Wallops Island, Virginia. These facilities and infrastructure were not yet in service as of June 30, 2012 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 \$32,100 for its services in 2012.

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. There has been no activity in FCO in recent years and the entity is currently considered dormant.

6. RETIREMENT AND PENSION SYSTEMS

Certain contracted personnel 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 full-time contracted personnel 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 of Virginia, not the Authority, has overall responsibility for contributions to these plans.

7. OPERATING LEASE COMMITMENTS

As of June 30, 2012, the Authority occupied office space and warehouse space under various lease agreements with initial periods ranging from one to nine years through 2016. The estimated future lease commitments for this lease as of June 30, 2012, are expected to be as follows:

2013	69,895
2014	62,619
2015	28,869
2016	<u>17,619</u>
	<u>\$179,002</u>

Total rent expense for the year ended June 30, 2012 was \$75,137.

At June 30, 2012, the Authority was party to construction and other contracts totaling \$117,406,249 of which \$112,601,247 has been incurred.

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.

9. SUBSEQUENT EVENT

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 agreed to the purchase of certain Launch Pad 0-A improvements from Orbital, on behalf of the Authority, for the total sum of \$25,589,453. The Second Memorandum of Understanding also provides for the Commonwealth of Virginia to purchase, on behalf of the Authority, additional Launch Pad 0-A improvements up to \$16.5 million following an independent third party review of the utility of those additional improvements. In the Second Memorandum of Understanding, the Commonwealth of Virginia also agreed to provide funding to the Authority for Launch Pad 0-A completion. Going forward, the Authority will provide Orbital access to Launch Pad 0-A, in return for a fixed fee arrangement of \$1.5 million per covered mission plus bulk commodities at cost.

Report of Independent Auditors

Board of Directors
Virginia Commercial Space Flight Authority

We have audited the accompanying financial statements of the ***Virginia Commercial Space Flight Authority*** as of and for the year ended June 30, 2012, 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; 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 the 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, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 5 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 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.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 26, 2012

***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 the accompanying financial statements of the ***Virginia Commercial Space Flight Authority*** as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the ***Virginia Commercial Space Flight Authority*** is responsible for establishing and maintaining effective 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 basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ***Virginia Commercial Space Flight Authority's*** internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 *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*.

This report is intended solely for the information and use of the *Virginia Commercial Space Flight Authority*, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 26, 2012