# VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30 2010

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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, 2010. 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 Fund Net Assets, the Statement of Cash Flows and Notes to the Financial Statements. The following analysis discusses elements from these statements, as well as on 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, 2010. 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.

| | 2010 | 2009 | Change |
|---|---|---|---|
| Assets | | | |
| Current assets | $14,941,236 | $1,257,407 | $13,683,829 |
| Capital assets, net of accumulated depreciation | 26,191,151 | 6,840,320 | 19,350,831 |
| Total assets | 41,132,387 | 8,097,727 | 33,034,660 |
| Liabilities | | | |
| Total current liabilities | 14,444,850 | 611,327 | 13,833,523 |
| Net Assets | | | |
| Invested in capital assets | 26,191,151 | 6,840,320 | 19,350,831 |
| Unrestricted | 496,386 | 646,080 | (149,694) |
| Total net assets | $26,687,537 | $7,486,400 | $19,201,137 |

The increase in current assets of $13,683,829 is primarily associated with an increase in accounts receivable related to launch activities and infrastructure development of $10,527,653 and an increase in cash funds available of $3,100,284. Other current assets consisting of prepaid insurance costs increased $55,892. The increase in capital assets of $19,350,831 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 $137,270 charged against operations for the fiscal year.

The increase in current liabilities of $13,833,523 is primarily associated with additional accounts payable and accrued expenses of $3,556,525 an increase in deferred revenue of $840,357 and an increase in amounts due the Authority's administrative and fiscal agent of $9,436,641. 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 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 present 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 service fees 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 revenue bonds and federal 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.

| | 2010 | 2009 | Change |
|---|---|---|---|
| Total operating revenues | $ - | $ 367,500 | $ (367,500) |
| Total operating expenses | 843,494 | 682,976 | 160,518 |
| Net operating income (loss) | (843,494) | (315,476) | (528,018) |
| Net non-operating revenue | 20,044,631 | 5,705,451 | 14,339,180 |
| Net income (loss) | 19,201,137 | 5,389,975 | 13,811,162 |
| Total net assets – Beginning of year | 7,486,400 | 2,096,425 | 5,389,975 |
| Total net assets – End of year | $26,687,537 | $7,486,400 | $19,201,137 |

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

Operating revenues decreased $367,500 as there were no completed launches during fiscal year 2010 from the Authority's launch pads at the Wallops Flight Facility. Operating expenses increased $160,518 as subcontracted services and personnel efforts increased in functions associated with launch Pad 0-B operations, maintenance and administrative activities.

Non-operating revenue increased significantly as funds provided from State bond revenues and federal cooperative agreements to support the development of infrastructure additional launch capabilities at the Wallops Island location. The cost of this infrastructure development has been capitalized and is reflected in the accompanying Statement of Net Assets as construction-in-progress. Other increases in net non-operating revenue are associated with commercial activities in the delivery of launch vehicle components.

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 reflects 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 employees, including salaries, wages, and fringe benefits, payments to suppliers and subcontractors. No launch services fees were received during fiscal year 2010. Cash flow from non-capital financing reflects the non-operating sources and uses of cash. The primary sources are sponsored activities of $18,430,792 associated with infrastructure development of the launch pad and associated facilities, launch capability studies, delivery and development of launch vehicle components and $258,520 from State appropriation. The primary use is to support the tasking associated with sponsored activities and to support cash requirements of operations. Cash flow from capital financing activities is from state bond revenues of $12,707,620 used for funding of infrastructure development reflected as construction-in-progress.

| | 2010 | 2009 | Change |
|---|---|---|---|
| Cash flows from operating activities | $ (738,670) | $ (95,975) | $ (642,695) |
| Cash flows from non-capital financing activities | 10,619,435 | 93,050 | 10,526,385 |
| Cash flows from capital financing activities | (6,780,481) | 110,091 | (6,890,572) |
| Net change in cash and cash equivalents | $ 3,100,284 | $ 107,166 | $2,993,118 |

## 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 2010, construction costs of $19,488,101 were incurred in the development of 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

The Authority has been actively engaged in enhancements and modifications to Launch Pad 0-B that will enable the launch of the NASA Lunar Atmosphere and Dust Environment Explorer (LADEE) on a Minotaur V launch vehicle in 2012. Completion of these Pad 0-B enhancements will enable the Authority to provide launch services to the full family of Air Force Minotaur launch vehicles.

The Air Force Research Lab and Space Development Test Wing is scheduled to launch their ORS-1 Mission in December 2010 on a Minotaur I launch vehicle from the Authority's Launch Pad 0-B. This launch will position the first tactical Operationally Responsive Satellite into orbit as an outgrowth of the successful TACSAT program that launched the TACSAT 2 and TACSAT 3 from Pad 0-B in 2006 and 2009 respectively.

NASA continues Spacecraft development and preparations for the LADEE Moon Orbiter Mission on an Air Force Minotaur V launch vehicle from Launch Pad 0-B. The launch is scheduled for late 2012 or early 2013. This launch will be the first launch to the Moon from Virginia. The Authority will provide launch services, facilities and technical support for the LADEE Mission via the Authority's NASA Wallops IQID contract NNG09WA08C awarded in May 2009.

In June 2008, Orbital Sciences Corporation of Dulles, VA announced that they had selected Authority's Mid-Atlantic Regional Spaceport as the test and demonstration and follow-on operations launch base for their new Taurus II launch system under NASA's Commercial Orbital Transportation System (COTS) development and procurement. In December 2008, NASA announced the selection of Orbital to conduct eight (8) cargo re-supply missions to the International Space Station (ISS) beginning in 2011 and continuing through 2015. The value of this re-supply contract to Orbital is $1.9Billion for the eight launches. The launches will be conducted from the Authority's new launch Pad 0-A currently under construction at the Mid-Atlantic Regional Spaceport on Wallops Island.

The majority of the activities of the Authority during the year ending June 30, 2010 have been associated with the management and oversight of the design and construction of the new Mid-Class Launch (MCL) capability under development at Pad 0-A.. This new launch Pad and supporting Liquid Fueling System will enable the launch of a new family of mid-to-heavy class of launch vehicles from the Authority's launch facilities. The first user of the new facility will be Orbital in their ISS re-supply missions for NASA. The new facilities being developed at the Wallops Flight Facility for this larger class of launch vehicles will cost in excess of $88,000,000. The development is being funded by a combination of Virginia Public Building Authority (VPBA) bonds, Federal funds through NASA, and private funds from Orbital. Of the total MCL assets, the Authority will own over $54,000,000 in new assets at Pad 0-A. The new MCL facilities are scheduled to be substantially complete by March 31, 2011 when an extensive test and certification program will begin. After completion of certification, Orbital will launch the first demonstration flight to ISS, now scheduled to occur in June 2011. Cargo re-supply missions to ISS are scheduled to begin in October 2011.

While the focus of the Authority staff in FY2010 has been upon the MCL facility development and modifications on Pad 0-B for the LADEE mission, they have continued to pursue several entrepreneurial launch vehicle development companies desiring to establish a base of operations on or near the Authority's Wallops Island spaceport. The new capabilities offered by the MCL facility at Pad 0-A have generated interest by several companies seeking to expand their space access business to orbits best served from Wallops Island. Most of these companies seek to offer commercial human space flight services to the Government under new Government initiatives and to commercial markets.

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 $375,000 toward the operations of the Authority in FY 2005, 2006, and 2009. Maryland provided $75,000 in FY2010 as part of an earlier commitment of the MOA. As a provision of the original Governors MOA, two Maryland representatives continue to serve and participate on the Authority Board of Directors.

Funding for adequate staffing of the Authority to support the expansion in physical assets and growth in launch activities continues to be a challenge. One full-time staff member was added in FY2010 bringing the complement of full-time staff to seven. The demands of the infrastructure development for the MCL Facility and the increased tempo of launch operations require that the Authority hire at least three additional full-time staff to address the safety obligations of the FAA Launch Site Operator's License, manage the infrastructure development, and administer the business elements of launch operations. The bulk of the direct launch operations and facilities maintenance will continue to be performed using contracted services. Operational oversight and training of contracted operating personnel during system commissioning and startup require funding for contracted support in the first half of FY2011 in advance of revenues from launches of the Taurus II.

The Authority Board of Directors formally requested additional appropriated funds for the Authority in FY2011 and beyond. As a result, the General Assembly appropriated $1,379,000 for FY2011 and $1,000,000 for FY2012. These appropriated funds along with the revenues from scheduled launches in FY2011 meet the Authority's FY2011 Budget that does not include the addition of the three needed employees. The reduction in launch revenues in FY2012 because of fewer launches and reduced FY2012 appropriations will not support the addition of needed personnel in FY2012. The ability to increase fees charged for use of Authority owned launch assets is limited by competition so therefore does not serve as a viable source of the funding shortfall. Increased launch tempo in FY2013 and beyond will close the gap in funding needs for adequate Authority staff

Until that increased tempo of launch support activities materializes, 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 and commercial ISS cargo re-supply 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.  This approach is in keeping with the primary purpose of the Authority being an economic development engine for the Commonwealth which it has consistently demonstrated by bringing significant job growth and capital investment to Virginia.

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# FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2010

| | | |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash (Note 2) | $ | 3,891,159 |
| Accounts receivable | | 10,967,264 |
| Other current assets | | 82,813 |
| Total current assets | | 14,941,236 |
| Nondepreciable capital assets (Note 3) | | |
| Construction-in-progress - launch facilities | | 25,039,014 |
| Depreciable capital assets, net accumulated depreciation (Note3) | | |
| Office furniture | | 15,505 |
| Computer equipment | | 33,103 |
| Machinery and equipment | | 137,525 |
| Land improvements | | 175,000 |
| Launch pad - 0-B | | 2,104,848 |
| | | 2,465,981 |
| Less: Accumulated Depreciation | | (1,313,844) |
| | | 26,191,151 |
| Total assets | $ | 41,132,387 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable & accrued expenses | $ | 3,700,016 |
| Deferred Revenue | | 1,052,123 |
| Due to Old Dominion University Research Foundation | | 9,692,711 |
| Total current liabilities | | 14,444,850 |
| **NET ASSETS** | | |
| Invested in capital assets | | 26,191,151 |
| Unrestricted | | 496,386 |
| Total net assets | $ | 26,687,537 |

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, 2010

| | |
|---|---|
| Operating revenues | |
| Service Fees | $ - |
| Operating expenses | |
| Administration | 345,639 |
| Subcontract services | 317,351 |
| Depreciation | 137,270 |
| Other | 43,234 |
| Total operating expenses | 843,494 |
| Operating loss | (843,494) |
| Non-operating revenues (expenses) | |
| State appropriation | 258,520 |
| State bond revenue | 12,707,620 |
| Federal contract revenue | 7,711,441 |
| State grants | 139,330 |
| Private grants | 7,231,822 |
| Pass-through grant | 65,775 |
| Expenses related to grants | (8,069,877) |
| Total non-operating revenues | 20,044,631 |
| Net Income | 19,201,137 |
| Net assets - beginning of year | 7,486,400 |
| Net assets - end of year | $ 26,687,537 |

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, 2010

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash paid to employees | $ (266,345) |
| Cash paid to suppliers | (472,325) |
| Cash received from service fees | - |
| Net cash provided by (used in) operating activities | (738,670) |
| Cash flows from noncapital financing activities: | |
| Cash received from state appropriation | 258,520 |
| Cash received for sponsored research | 18,430,792 |
| Cash payments for sponsored research | (8,069,877) |
| Net cash provided by noncapital financing activities | 10,619,435 |
| Cash flows from capital financing activities: | |
| Cash received from bond revenue | 12,707,620 |
| Investment in construction-in-progress | (19,488,101) |
| | (6,780,481) |
| Net increase (decrease) in cash and cash equivalents | 3,100,284 |
| Cash and cash equivalents - beginning of year | 790,875 |
| Cash and cash equivalents - end of year | $ 3,891,159 |

| | |
|---|---|
| Reconciliation of net income to net cash provided by operating activities: | |
| Net operating income (loss) | $ (843,494) |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation | 137,270 |
| Changes in assets and liabilities: | |
| Increase in other assets | (55,892) |
| Increase in accounts payable -operating | 23,446 |
| Net cash provided by operating activities | $ (738,670) |

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

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 federal cooperative agreements associated with the development of space launch capabilities.

## 2. CASH

As of June 30, 2010, cash balances of $3,891,159 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, 2010:

| | Balance July 1, 2009 | Acquired Increased | Deleted (Decreased) | Balance June 30, 2010 |
|---|---|---|---|---|
| Nondepreciable capital assets: | | | | |
| Construction-in-progress | $5,550,913 | $19,488,101 | $ - | $25,039,014 |
| Total nondepreciable capital assets | 5,550,913 | 19,488,101 | - | 25,039,014 |
| Depreciable capital assets: | | | | |
| Improvements other than buildings | 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 | - | - | 137,525 |
| Total depreciable assets | 2,465,981 | - | - | 2,465,981 |
| Less: accumulated depreciation | | | | |
| Improvements other than buildings | $ 999,802 | $ 105,242 | $ - | $ 1,105,044 |
| Land improvements | 93,189 | 11,667 | - | 104,856 |
| Office equipment | 15,504 | - | - | 15,504 |
| Computer equipment | 33,046 | - | - | 33,046 |
| Machinery and equipment | 35,033 | 20,361 | - | 55,394 |
| Total accumulated depreciation | 1,176,574 | 137,270 | - | 1,313,844 |
| Capital assets, net | $6,840,320 | $ 19,350,831 | $ - | $26,191,151 |

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:

| | |
|---|---|
| Office equipment | 7 years |
| Computer equipment | 5 years |
| Machinery and equipment | 5 years |
| Land improvements | 15 years |
| Improvements other than buildings | 20 years |

As of June 30, 2010 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, 2010 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 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, 2010, the Authority occupied office space under agreement with Old Dominion University. The estimated future lease commitments for this lease as of June 30, 2010, are expected to be as follows:

| | |
|---|---|
| 2011 | 3,524 |
| 2012 | 10,571 |
| 2013 | 14,095 |
| 2014 | 17,619 |
| 2015 | 17,619 |
| 2016 | 17,619 |
| | $ 81,047 |

For the year ended June 30, 2010 the minimum rental was not paid due to renegotiation of this agreement. Total rent expense for the year ended June 30, 2009 was $11,546.

At June 30, 2010, the Authority was party to construction and other contracts totaling approximately $51,556,155 of which $28,465,611 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.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 29, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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** (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2010, 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. We anticipate releasing that report on or after November 8, 2010. 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.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Norfolk, Virginia