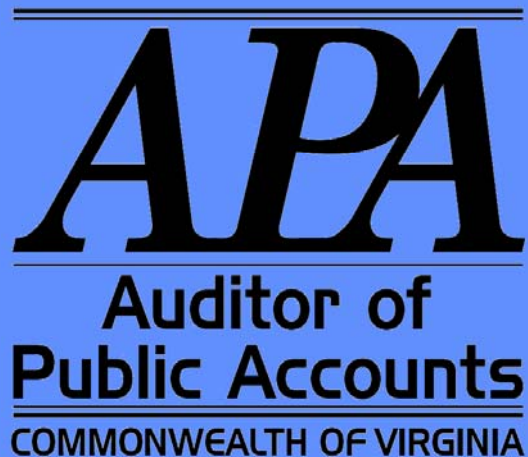


VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**



AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2009 and issued our report thereon, dated November 18, 2009. Our report is included in the Virginia Commercial Space Flight Authority's Annual Report that it anticipates releasing on or around December 1, 2009.

Our audit of the Virginia Commercial Space Flight Authority for the year ended June 30, 2009 found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Risk Alert

The Virginia Commercial Space Flight Authority does not have dedicated staff or resources to support its program operations. As the program has grown, so has the need for additional program resources. Without additional resources, there is an increased risk of a program failure, since there are insufficient resources to make sure contractors and others properly deliver the services necessary to achieve the program. Until there is active and continuous use of the Authority's Mid-Atlantic Regional Spaceport (MARS) facility at Wallops Island creating a substantial revenue stream to support operations, the Authority does not have adequate program resources necessary to grow and develop this commercial space flight program.

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COMMENTS TO MANAGEMENT

RISK ALERT

During the course of our audits, we encounter issues that are beyond the corrective action of management and require the action of either another agency or outside party or a change in the method by which the Commonwealth conducts its operations. We feel that these practices or conditions represent a risk to the Commonwealth.

Seek Additional Resources for Program Support

The Virginia Commercial Space Flight Authority does not have dedicated staff or resources to support its program operations. As the program has grown, so has the need for additional program resources. Without additional resources, there is an increased risk of a program failure, since there are insufficient resources to make sure contractors and others properly deliver the services necessary to achieve the program. Until there is active and continuous use of the Authority's Mid-Atlantic Regional Spaceport (MARS) facility at Wallops Island creating a substantial revenue stream to support operations, the Authority does not have adequate program resources necessary to grow and develop this commercial space flight program.

The Authority receives revenues from service fees associated with launches, state appropriations, and federal, state, and private grants. In addition, the Authority received Commonwealth bond funds totaling \$26 million to finance improvements to MARS. The Commonwealth invested these funds as part of an incentive package to secure Orbital Sciences Corporation's use of MARS as the test, demonstration, and follow-on operation launch base for their new Taurus II launch system. The Commonwealth anticipates that its selection as the primary launch base for the Taurus II will provide at least 125 new jobs and more than \$85 million in capital investment in Virginia.

In response to this identified risk, the Authority has created a Special Committee on Staffing and Funding Status to identify the optimum staff composition, related staffing costs, and funding opportunities necessary for the Authority to successfully meet its contractual obligations and continue to administer a successful program. We believe that this Special Committee should work with the Secretary of Commerce and Trade, Old Dominion University, and the Old Dominion Research Foundation to find future sources and opportunities for the program support necessary to develop the Authority and create a successful commercial space flight program.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 18, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Commercial Space Flight Authority

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

We have audited the basic financial statements of the **Virginia Commercial Space Flight Authority** as of and for the year ended June 30, 2009, and have issued our report thereon dated November 18, 2009. 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

In planning and performing our audit, we considered the Virginia Commercial Space Flight Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

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

We discussed this report with management at an exit conference held on November 24, 2009.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

Norfolk, Virginia

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