

*Financial Statements*  
*Year Ended*  
*June 30, 2014*

*Virginia Commercial Space Flight Authority*



**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

# *Virginia Commercial Space Flight Authority*

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## ***Independent Auditors' Report***

Board of Directors  
***Virginia Commercial Space Flight Authority***

### **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, 2014, 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.

### ***Auditors' 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, and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 auditors' 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.

## ***Opinion***

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, 2014, 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 16, 2014, 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.

*Dixon Hughes Goodman LLP*

Newport News, Virginia  
October 16, 2014

# *Virginia Commercial Space Flight Authority*

## *Management's Discussion and Analysis - (Unaudited)*

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**June 30, 2014**

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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, 2014. 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 an 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, 2014. 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.

	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 6,678,087	\$ 5,182,996	\$ 1,495,091
Capital assets, net of accumulated depreciation	117,335,286	109,649,455	7,685,831
Total assets	<u>\$ 124,013,373</u>	<u>\$ 114,832,451</u>	<u>\$ 9,180,922</u>
<b>Liabilities:</b>			
Total current liabilities	\$ 3,803,474	\$ 5,233,369	\$ (1,429,895)
Total long-term liabilities	5,000,000	4,968,092	31,908
Total liabilities	<u>\$ 8,803,474</u>	<u>\$ 10,201,461</u>	<u>\$ (1,397,987)</u>
<b>Net Position:</b>			
Invested in capital assets	\$ 117,335,286	\$ 109,649,455	\$ 7,685,831
Unrestricted	(2,125,387)	(5,018,465)	2,893,078
Total net position	<u>\$ 115,209,899</u>	<u>\$ 104,630,990</u>	<u>\$ 10,578,909</u>

The increase in current assets of \$1,495,091 is primarily associated with an increase in cash of \$4,418,661 off-set by a decrease in accounts receivable of \$3,077,738. Other current assets consisting of prepaid insurance costs, security deposits on leased property and other miscellaneous items increased \$154,168. The increase in capital assets of \$7,685,831 is the result of investments in additional launch facilities at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility, Virginia. Launch Pad 0A was completed and placed in service during fiscal year 2014; modifications to Pad 0B were also placed in service during fiscal year 2014. The increase in capital assets is net of depreciation expense of \$2,225,390 charged against operations for the fiscal year.

The decrease in current liabilities of \$1,429,895 is primarily associated with a decrease in accounts payable of \$532,542, a decrease in amounts due the Authority's administrative and fiscal agent of \$2,820,274, and an increase in unearned revenue of \$1,922,921. The decrease in current liabilities is primarily associated with the completion of Pad 0A and commencement of launch activities. The increase in long-term liabilities of \$31,908 is due to borrowing additional funds from a long-term debt obligation with the Commonwealth of Virginia through a Transportation Partnership Opportunity Fund Loan related to Pad 0A infrastructure development.

The increase 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 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.

	<b>2014</b>	<b>2013</b>	<b>Change</b>
Total operating revenue	\$ 16,113,089	\$ 12,061,720	\$ 4,051,369
Total operating expenses	27,405,169	20,513,091	6,892,078
Net operating loss	(11,292,080)	(8,451,371)	(2,840,709)
Net non-operating revenue	11,870,989	17,643,934	(5,772,945)
Capital contributions	10,000,000	25,589,453	(15,589,453)
Net income	10,578,909	34,782,016	(24,203,107)
Total net position - beginning of year	104,630,990	69,848,974	34,782,016
Total net position - end of year	\$ 115,209,899	\$ 104,630,990	\$ 10,578,909

The increase in operating revenue of \$4,051,369 is due to the increase in operational activity at Launch Pad 0A and Launch Pad 0B at the Mid-Atlantic Regional Spaceport during fiscal year 2014 as further discussed under Significant Events. Operating expenses increased \$6,892,078 as subcontracted services and personnel efforts increased in functions associated with operations, maintenance and administrative activities.

The decrease in non-operating revenue of \$5,772,945 is primarily due to a decrease in Commonwealth of Virginia grants and Federal contracts related to the launch facility infrastructure development at the Mid-Atlantic Regional Spaceport. These decreases were off-set by an increase in the Commonwealth of Virginia Appropriation.

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 and the Settlement Agreement and Mutual Release of Claims by and between Orbital Sciences Corporation, the Commonwealth of Virginia and the Authority executed in January 2014. The purchased assets have been capitalized and are reflected in the accompanying Statement of Net Position as launch pad facilities.

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 fees and launch support activities. The primary uses are payments to 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 source is \$11,800,000 from the Commonwealth of Virginia appropriation. The primary use is to support cash requirements of operations. Cash flows received from capital financing activities is from federal contract revenue of \$213,498, state grant revenue of \$597,038, capital contributed by the Commonwealth of Virginia in the amount of \$10,000,000 and long-term debt in the amount of \$211,464. The primary uses were for investment in capital assets, specifically funding of enhanced launch capability at the Mid-Atlantic Regional Spaceport.

	<b>2014</b>	<b>2013</b>	<b>Change</b>
Cash flows from operating activities	\$ (6,746,698)	\$ (7,998,210)	\$ 1,251,512
Cash flows from noncapital financing activities	11,720,370	2,953,748	8,766,622
Cash flows from capital financing activities	(555,011)	4,890,567	(5,445,578)
Net change in cash and cash equivalents	\$ 4,418,661	\$ (153,895)	\$ 4,572,556

### **Capital Assets and Long-Term Debt**

The Authority's capital assets consist primarily of Launch Pad 0A and Launch Pad 0B at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility on the Eastern Shore of Virginia and related support machinery and equipment. For more detailed information about the completion of Launch Pad 0A and modifications to Pad 0B, 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 related to the construction of Pad 0A.

### **Significant Events**

During FY 2014, the Virginia Commercial Space Flight Authority (VCSFA), 'Virginia Space,' finalized construction of the Medium Class Launch Facility (MCLF) at the Mid-Atlantic Regional Spaceport (MARS), Launch Pad 0A, and entered a prosperous era of regular space launch operations. The new 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 for Virginia Space.

The first customer to launch from Pad 0A is Orbital Sciences Corporation, 'Orbital,' based in northern Virginia. Orbital won a \$1.9 billion Commercial Resupply Services (CRS) NASA contract to deliver up to 44,000 pounds (20,000 kilograms) of cargo to the International Space Station (ISS) over eight missions through late 2016; an extension of the CRS contract that may add 2-4 missions is anticipated. NASA has also announced that a formal "Request-For-Proposal" for a follow-on contract (CRS-2) extending cargo resupply services potentially through 2024 is currently anticipated to be released in the Fall/2014. Orbital is using their new Antares launch vehicle and Cygnus spacecraft to accomplish these missions. Antares is currently launching exclusively from Pad 0A. For these missions, NASA will manifest a variety of essential items based on the ISS program needs, including food, clothing, crew supplies, spare parts and equipment, and scientific experiments.

In addition to the completion of construction on Pad 0A, Virginia Space upgraded capabilities on MARS Launch Pad 0B. Virginia Space completed modifications to and certification of Pad 0B for the launch of the NASA Lunar Atmosphere and Dust Environment Explorer (LADEE) to the Moon on the new Orbital Minotaur V launch vehicle. These Pad 0B enhancements enable Virginia Space to provide launch services to the entire family of Orbital Minotaur launch vehicles as well as a broader family of small-to-medium class solid propellant launch vehicles.

In order to further capitalize on Pad 0B potential and develop new business, Virginia Space commissioned a feasibility study to launch the new Orbital Minotaur VI at Pad 0B; the Minotaur VI launch vehicle is capable of increased lift capacity compared to the Minotaur V launch vehicle and would expand Pad 0B capability, mission set and business. Based on positive feasibility study results, engineering drawings were completed in FY 2014. With that, Virginia Space is positioned to move forward with implementing Pad 0B modifications for a Minotaur VI launch vehicle as soon as the business opportunity/case presents itself.

The completion of Pad 0A and the upgrades at Pad 0B enabled Virginia Space to execute its launch manifest in a dramatic series of four successful launches in FY 2014: the NASA LADEE (Lunar Atmosphere and Dust Environment Explorer) Mission launched to the Moon from Pad 0B; the Antares-Cygnus Demonstration Flight launched cargo to the ISS from Pad 0A; the DOD ORS-3 (Operationally Responsive Space) Mission launched from Pad 0B; and the Antares-Cygnus Orb-1/CRS-1 Mission launched cargo to the ISS from Pad 0A.



The NASA LADEE (Lunar Atmosphere and Dust Environment Explorer) Mission launched to the Moon from Pad 0B on September 6, 2013 at 11:57 PM Eastern Time. The LADEE spacecraft was launched on the first Minotaur V launch vehicle built by Orbital. LADEE was a robotic mission that orbited the Moon to gather detailed information about the lunar atmosphere, conditions near the surface, environmental influences on lunar dust, and conducted a test of the first space LASER communications link effectively creating the first space Internet connection. The Minotaur V launch vehicle was the largest solid propellant vehicle ever launched from MARS or NASA Wallops Flight Facility and the first mission to the Moon launched from Virginia.

The Antares-Cygnus Commercial Orbital Transportation Services (COTS) Demonstration Flight, ORB-D1 Mission, successfully launched cargo to the ISS from Pad 0A on September 18, 2013 at 10:58 AM Eastern Time. The goal of the COTS Demonstration Flight was to prove efficacy of the operational Antares-Cygnus system, including launch vehicle integration and payload processing, roll-out of the launch vehicle from the NASA Horizontal Integration Facility (HIF), emplacement of the launch vehicle with payload on Pad 0A, launch vehicle fueling on the pad, launch, delivery of the payload to the ISS, and controlled destructive reentry of the Cygnus spacecraft containing disposable cargo into the Earth's atmosphere over a remote location in the south Pacific. The COTS Demonstration Flight was the final operational milestone under the NASA COTS contract with Orbital.

[This was only a twelve day separation between the launch of preceding LADEE mission off Pad 0B and the COTS mission launched off Pad 0A. This demonstrated the ability for Virginia Space and NASA Wallops to support a much higher launch rate with current facilities as the rate of launches increases in the future.]

The Department of Defense (DOD) Operationally Responsive Space (ORS) Office and USAF Space Development and Test Wing (SDTW) launched the Operationally Responsive Satellite Number Three (ORS-3) mission from Pad 0B on November 19, 2013 at 8:15 PM Eastern Time onboard a Minotaur I launch vehicle. The ORS-3 Mission was intentionally scheduled to occur shortly after and in conjunction with the LADEE launch to demonstrate responsiveness of the of the launch vehicle, satellite, and launch site in meeting National needs. A total of 29 satellites were launched on this mission (the most ever aboard a single U.S. rocket). The primary payload for the ORS-3 Mission was the U.S. Air Force STPSat-3 satellite. In addition, the rocket deployed 28 cubesats. Among them was TJ3Sat, the first satellite built by high school students. The ORS-3 Mission marked the fifth launch of a Minotaur I launch vehicle from MARS since 2006 from Pad 0B.

NASA launched the first Commercial Resupply Services Mission (CRS-1) to the ISS from Pad 0A on January 9, 2014, 1:07 PM Eastern Time. For this mission, Cygnus carried approximately 1465 kg (3,230 lbs.) of cargo to the ISS for NASA. Cygnus remained berthed at the ISS for 38 days during which time the station crew unloaded cargo from Cygnus and loaded it with materials for disposal. Cygnus departed the station on February 18, 2014 and reentered the Earth's atmosphere a day later. Seven more cargo resupply missions to the ISS are on the MARS manifest under the current Commercial Resupply Services (CRS) contract between Orbital and NASA.

The industry and public awareness of the increased investment and operations tempo at the Virginia Space MARS facility continues to stimulate interest by companies seeking to expand their space access business to orbits best served from Wallops. The interest spans both the solid and liquid fueled launch vehicle providers servicing the satellite and human-space related 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 continue to express confidence in the leadership, facilities, personnel and overall direction of Virginia Space.

In FY 2014, Virginia Space continued improvements in operational processes and organizational efficiencies, including the transition of several contractor personnel into full-time Virginia Space employees. Virginia Space completed the MARS FAA recertification for launches to orbit, which is valid for a period of five years. In order to increase the licensed capacity of Pad 0A to host the upcoming Antares Enhanced (Configuration 130), Virginia Space submitted a request to the FAA to modify the MARS launch license accordingly; the request was approved. 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 the Earth's orbit and interplanetary missions.

To encourage Science, Technology, Engineering, and Mathematics (STEM) education, Virginia Space developed and fielded a new Internship Program in FY 2014. After a rigorous and very selective competition, three engineers and three technicians began their summer internship at MARS on May 19, 2014. The interns attended a thorough indoctrination to the space career field with emphasis on launch. Given the timing, interns were able to participate in and contribute to one of the cargo resupply launches to the ISS. Interns were assigned a mentor that provided on-the-job training (OJT) and guided them through a capstone project. The capstone projects were used to demonstrate the substantial work that the interns accomplished, their contributions to MARS, and experience they received during their program.

Virginia continues to play a key role in National security and assured access to space, as one of only four states in the United States licensed by the FAA to launch spacecraft into orbit or on interplanetary trajectories. MARS is one of only two locations that provide cargo resupply services to the ISS. MARS is also one of only three locations that currently provide operationally responsive space support for DOD. With the significance of these important National missions, Virginia Space Executive Staff along with the Commonwealth of Virginia leaders and the Congressional Delegation continue to pursue increases in funding from the both the Commonwealth and the Federal Government to adequately fund launch facility improvements at NASA Wallops and the Mid-Atlantic Regional Spaceport and maintain the newly developed launch capabilities as well as our Nation's assured access to space.

### **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, 2014**

<b>Assets</b>	
<b>Current assets</b>	
Cash (Note 2)	\$ 5,339,515
Accounts receivable	1,151,205
Other current assets	187,367
Total current assets	<u>6,678,087</u>
<b>Depreciable capital assets - net accumulated depreciation (Note 3)</b>	
Launch pad facilities	120,319,443
Machinery and equipment	1,649,153
Land improvements	175,000
Computer equipment	124,678
Office furniture	14,426
	<u>122,282,700</u>
Less - accumulated depreciation	<u>(4,947,414)</u>
	<u>117,335,286</u>
	<u>\$ 124,013,373</u>
<b>Liabilities and Net Position</b>	
<b>Current liabilities</b>	
Accounts payable and accrued expenses	\$ 632,414
Unearned revenue	1,934,866
Due to Old Dominion University Research Foundation (Note 4)	1,236,194
Total current liabilities	<u>3,803,474</u>
<b>Long-term liabilities</b>	
Long-term debt (Note 5)	<u>5,000,000</u>
Total liabilities	8,803,474
<b>Net position</b>	
Net investment in capital assets	117,335,286
Unrestricted	<u>(2,125,387)</u>
Total net position	<u>115,209,899</u>
	<u>\$ 124,013,373</u>

*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*

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**Year Ended June 30, 2014**

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<b>Operating revenue</b>	
Commercial launch fees	\$ 3,600,000
Government launch fees	800,000
Launch support revenue - government	1,328,876
Launch support revenue - private	10,384,213
Total operating revenue	<u>16,113,089</u>
<b>Operating expenses</b>	
Administration	3,442,648
Subcontract services	20,977,166
Depreciation	2,225,390
Other	759,965
Total operating expenses	<u>27,405,169</u>
Net operating loss	<u>(11,292,080)</u>
<b>Nonoperating revenue (expenses)</b>	
State appropriation	11,800,000
State grants	22,758
Federal contracts	45,776
Private contracts	11,945
Expenses related to grants and contracts	(9,490)
Total nonoperating revenue	<u>11,870,989</u>
<b>Capital contributions (Note 9)</b>	<u>10,000,000</u>
<b>Change in net position</b>	10,578,909
<b>Net position - beginning of year</b>	<u>104,630,990</u>
<b>Net position - end of year</b>	<u>\$ 115,209,899</u>

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

# Virginia Commercial Space Flight Authority

## Statement of Cash Flows

Year Ended June 30, 2014

<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 19,713,653
Cash paid to employees	(2,491,689)
Cash paid to suppliers	(23,968,662)
<b>Net cash from operating activities</b>	<u>(6,746,698)</u>
<b>Cash flows from noncapital financing activities</b>	
Cash received from state appropriation	11,800,000
Cash payments for grants and contracts	(79,630)
<b>Net cash from noncapital financing activities</b>	<u>11,720,370</u>
<b>Cash flows from capital financing activities</b>	
Cash received from federal contracts	213,498
Cash received from state grants	597,038
Cash received from capital contribution	10,000,000
Cash received from long-term debt	211,464
Investment in capital assets	(11,577,011)
<b>Net cash from capital financing activities</b>	<u>(555,011)</u>
<b>Net change in cash</b>	4,418,661
<b>Cash - beginning of year</b>	<u>920,854</u>
<b>Cash - end of year</b>	<u>\$ 5,339,515</u>
<b>Reconciliation of net operating loss to net cash from operating activities:</b>	
Net operating loss	\$ (11,292,080)
Adjustments to reconcile net income to net cash from operating activities:	
Bad debt expense	490,482
Depreciation	2,225,390
Changes in assets and liabilities:	
Decrease in accounts receivable	1,665,698
Increase in other current assets	(154,168)
Decrease in accounts payable and accrued expenses	(268,824)
Increase in unearned revenue	1,934,866
Decrease in Due to Old Dominion University Research Foundation	(1,348,062)
<b>Net cash from operating activities</b>	<u>\$ (6,746,698)</u>
<b>Supplemental disclosure of noncash information</b>	
Construction-in-progress transferred to depreciable capital assets placed in service	\$ 106,494,881

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

# *Virginia Commercial Space Flight Authority*

## *Notes to Financial Statements*

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**June 30, 2014**

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### **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 (Commonwealth). 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 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2014. This statement amends prior reporting requirements by (i) reclassifying certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and (ii) recognizing certain items previously reported as assets and liabilities as expenses or revenues based on the definitions of those elements in GASB Concepts Statement No.4, *Elements of Financial Statements*. The implementation of GASB Statement No. 65 had no effect on the Authority's net position.

## **Credit Risk and Concentration**

At June 30, 2014, cash balances of \$5,339,515 were held by the Old Dominion University Research Foundation (Research Foundation). The Research Foundation maintains its cash balances in depository accounts at financial institutions with deposits insured by the Federal Deposit Insurance Corporation.

One commercial customer has contracted with the Authority for launch pad facilities and operations support at Pad 0A.

## **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. At June 30, 2014, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

## **Unearned Revenue**

Unearned revenue includes amounts billed under private contracts in anticipation of launch milestones and for progress payments that occurred subsequent to year-end.

## **Classification of Revenue and Expenses**

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

Operating revenue and expenses generally represent the 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 16, 2014, the date the financial statements were available to be issued.

### 3. Capital Assets

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

	<b>Balance July 1, 2013</b>	Acquired Increased	Deleted (Decreased)	<b>Balance June 30, 2014</b>
Nondepreciable capital assets:				
Construction-in-progress	\$ 106,494,881	\$ -	\$ (106,494,881)	\$ -
Depreciable capital assets:				
Launch pad facilities	5,380,917	114,938,526	-	120,319,443
Machinery and equipment	188,036	1,461,117	-	1,649,153
Land improvements	175,000	-	-	175,000
Computer equipment	148,224	6,459	(30,005)	124,678
Office furniture	15,505	-	(1,079)	14,426
Total depreciable assets	<u>5,907,682</u>	<u>116,406,102</u>	<u>(31,084)</u>	<u>122,282,700</u>
Less – accumulated depreciation				
Launch pad facilities	2,447,156	2,121,225	-	4,568,381
Machinery and equipment	110,568	71,960	-	182,528
Land improvements	139,855	9,583	-	149,439
Computer equipment	40,024	22,622	(30,005)	32,641
Office furniture	15,505	-	(1,079)	14,425
Total depreciation	<u>2,753,108</u>	<u>2,225,390</u>	<u>(31,084)</u>	<u>4,947,414</u>
Capital assets - net	<u>\$ 109,649,455</u>	<u>\$ 114,180,712</u>	<u>\$ (106,494,881)</u>	<u>\$ 117,335,286</u>

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:

	<u>Years</u>
Launch pad facilities	7 - 25
Machinery and equipment	4 - 15
Land improvements	15
Computer equipment	5
Office furniture	5 - 7

### 4. Due to Old Dominion University Research Foundation

The 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 \$52,077 for its services in 2014.



## 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, 2014, the Authority had received \$5,000,000 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. The original agreement calls for repayment of the loan 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 agreement states 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.

Long-term debt activity during 2014 was as follows:

Long-term debt – July 1, 2013	\$ 4,968,092
Additional loans during the year	<u>31,908</u>
Long-term debt – June 30, 2014	<u>\$ 5,000,000</u>

During 2014, the Commonwealth of Virginia instructed the Authority not to make repayments on the loan as it is the Commonwealth's intent to convert the loan into a grant. In February 2014, the Authority submitted a request to the Commonwealth for the note conversion; however, this request had not been formally approved as of the date of these financial statements. Therefore, as of June 30, 2014, the \$5,000,000 balance on the note is classified as long-term debt on the statement of financial position.

## 6. Retirement and Pension Systems

Authority employees receive a fixed contribution of 11 percent of their base salary, which is invested through an Authority sponsored 401(a) Plan.

## 7. Commitments

At June 30, 2014, the Authority occupied office space and warehouse space under various lease agreements with initial periods ranging from three to six years through 2019.

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

2015	\$ 93,356
2016	70,293
2017	69,722
2018	69,151
2019	<u>57,626</u>
	<u>\$ 360,148</u>

Total rent expense for 2014 was \$189,670.

At June 30, 2014, the Authority has contractual commitments of approximately \$5 million for work remaining to be performed under outstanding contracts, the vast majority of which will be reimbursable under separate private contract agreements.

**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; 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.

**9. Capital Contributions**

Pursuant to a settlement agreement by and among the Authority, the Commonwealth of Virginia, and Orbital Sciences Corporation (Orbital) executed in January 2014, it was agreed that the Commonwealth of Virginia would purchase from Orbital additional assets in the amount of \$10 million, for which title should be given to the Commonwealth and the Authority. Therefore, \$10 million was recorded as an addition to capital assets and capital contributions for the year ended June 30, 2014.

\* \* \* \* \*

*Virginia Commercial Space Flight Authority*

*Compliance Section*

*June 30, 2014*



**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

***Independent Auditors' 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, 2014, 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 16, 2014.

***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 statements 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.

### ***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*.

### ***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 16, 2014

*Virginia Commercial Space Flight Authority*

*Other Information*

*June 30, 2014*

*Virginia Commercial Space Flight Authority*  
*Norfolk, Virginia*

**Authority Officials**

**Board Members**

(through fiscal year ended June 30, 2014)

William Readdy, Chairman

Vincent Boles  
Randall Burdette  
J. Jack Kennedy  
Carol Staubach

John Broderick  
John Jester  
Aubrey Layne  
A. Thomas Young

Dale Nash, Executive Director