

Virginia Commercial Space Flight Authority

Financial Statements

Year Ended June 30, 2016

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Independent Auditors' Report

Board of Directors
Virginia Commercial Space Flight Authority
Norfolk, Virginia

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, 2016, 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, 2016, 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 9 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 September 26, 2016, 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
September 26, 2016**

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, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

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, 2016. 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.

**Virginia Commercial Space Flight Authority
Management's Discussion and Analysis – (Unaudited)**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets:			
Current assets	\$ 16,051,539	\$ 12,762,341	\$ 3,289,198
Construction-in-progress	2,660,993	-	2,660,993
Capital assets, net of accumulated depreciation	<u>107,989,356</u>	<u>112,691,342</u>	<u>(4,701,986)</u>
Total assets	<u>\$126,701,888</u>	<u>\$125,453,683</u>	<u>\$ 1,248,205</u>
Liabilities:			
Total current liabilities	\$ 2,783,681	\$ 7,208,536	\$ (4,424,855)
Net Position:			
Invested in capital assets	\$110,650,349	\$112,691,342	\$ (2,040,993)
Restricted for Unmanned Aircraft Systems Runway	5,085,943	-	5,085,943
Unrestricted	<u>8,181,915</u>	<u>5,553,805</u>	<u>2,628,110</u>
Total net position	<u>\$123,918,207</u>	<u>\$118,245,147</u>	<u>\$ 5,673,060</u>

The increase in current assets of \$3,289,198 is primarily associated with an increase in cash of \$4,076,496 off-set by a decrease in amounts due from the Authority's fiscal and administrative agent, Old Dominion University Research Foundation of \$4,811,854 and a new current asset category "Funds held by Virginia Department of Transportation" in the amount of \$4,341,692 which is related to construction of the Unmanned Aircraft Systems (UAS) runway as further discussed in Note 2. The remaining variance in current assets, a decrease of \$317,136, is due to a decrease in accounts receivable offset by an increase in other current assets consisting of prepaid insurance costs and other miscellaneous items. The increase in construction-in-progress is associated with the construction of the UAS runway, as further discussed in Note 2 and Significant Events, and capital enhancements to the Mid-Atlantic Regional Spaceport (MARS) facilities to enhance rapid-response launch capability, ground system reliability, up-time for launch support and increasing security protocols. The decrease in capital assets of \$4,701,986 is the result of investments in software, automobiles, utility vehicles and a RP1 fuel trailer offset by depreciation expense of \$4,787,262 charged against operations for the fiscal year.

The decrease in current liabilities of \$4,424,855 is primarily associated with a decrease in accounts payable of \$2,716,904 offset by an increase in accrued expenses related to payroll of \$191,325, and a decrease in unearned revenue of \$1,899,276.

The increase in unrestricted net position is a result of the change in net position for the fiscal year exclusive of funds restricted for the UAS Runway and 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 or repair of space launch capabilities at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility located on the Eastern Shore of Virginia.

**Virginia Commercial Space Flight Authority
Management's Discussion and Analysis – (Unaudited)**

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Total operating revenue	\$ 7,649,986	\$ 10,707,382	\$ (3,057,396)
Total operating expenses	<u>24,656,636</u>	<u>24,733,901</u>	<u>(77,265)</u>
Net operating loss	(17,006,650)	(14,026,519)	(2,980,131)
Net nonoperating revenue	<u>22,679,710</u>	<u>17,061,767</u>	<u>5,617,943</u>
Change in net position	5,673,060	3,035,248	2,637,812
Total net position, beginning of year	<u>118,245,147</u>	<u>115,209,899</u>	<u>3,035,246</u>
Total net position, end of year	<u>\$123,918,207</u>	<u>\$118,245,147</u>	<u>\$ 5,673,060</u>

The decrease in operating revenue of \$3,057,396 is due to the continued reduction in launch operations activity at Pad 0A due to the catastrophic launch failure of the ORB-3 Antares mission on October 28, 2014 as further discussed under Significant Events. Operating expenses decreased \$77,265 as expenditures associated with launch operations decreased offset by an increase in expenditures associated with facility maintenance activities.

The increase in net nonoperating revenue of \$5,617,943 is due to increases in Federal contracts and private agreements related to the repair of Pad 0A, an increase in Federal contracts related to spaceport capability enhancements, and an increase in the Commonwealth of Virginia appropriation for the UAS runway as further discussed in Significant Events. The revenue increases were offset by an increase in nonoperating expenses related to the repair of Pad 0A, the spaceport capability enhancements and the UAS Runway construction.

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 noncapital sources and uses of cash. The primary source is \$15,800,000 from the Commonwealth of Virginia appropriation with additional sources from private agreements and a Federal contract related to the repair of Pad 0A. The primary uses are to support cash requirements of operations and to repair Pad 0A as further discussed in Significant Events. Cash flows from capital financing activities reflect the nonoperating capital sources and uses of cash. The primary sources are the Commonwealth of Virginia appropriation for the UAS runway and a Federal contract for spaceport capability enhancements. The primary uses of cash flows from capital financing activities were for investment construction in progress and capital assets.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Cash flows used by operating activities	\$ (9,662,655)	\$ (18,910,513)	\$ 9,247,858
Cash flows from noncapital financing activities	13,354,446	15,442,510	(2,088,064)
Cash flows from capital financing activities	<u>384,705</u>	<u>(134,493)</u>	<u>519,198</u>
Net change in cash and cash equivalents	<u>\$ 4,076,496</u>	<u>\$ (3,602,496)</u>	<u>\$ 7,678,992</u>

Virginia Commercial Space Flight Authority Management's Discussion and Analysis – (Unaudited)

Capital Assets

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.

Significant Events

The Virginia Commercial Space Flight Authority (VCSFA or Virginia Space), owns and operates the Mid-Atlantic Regional Spaceport (MARS) located on the NASA Wallops Flight Facility (WFF) at Wallops Island, Virginia. Virginia Space is permitted to use the land for MARS and does business with NASA through a regularly renewed Space Act Agreement. 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.

MARS operates two pads: Pad 0A, a Medium Class Launch Facility (MCLF) comprised of a state of the art cryogenic liquid fuel facility with a computer controlled commodities system, fortified launch mount, robust electrical and environmental control systems, and gravity fed fresh water deluge system; and Pad 0B, a Small Class Launch Facility (SCLF) comprised of a launch stool, moveable service structure, and environmental control system. Pad 0A currently hosts the Orbital ATK Antares launch vehicle under contract to deliver cargo to the International Space Station (ISS), with potential for significant other NASA and DoD payload business. Pad 0B has hosted primarily Orbital ATK Minotaur class launch vehicles and is capable of considerable reconfiguration to host nearly any existing small class launch vehicle on the market. Missions launched from Pad 0B include multiple DoD, Operationally Responsive Space (ORS) missions, and the NASA LADEE (Lunar Atmosphere and Dust Environment Explorer) mission to the Moon, the first lunar mission to launch from Virginia.

Launch Operations

The recovery and rebuild of Pad-0A, following the catastrophic launch failure of the ORB-3 Antares mission on October 28, 2014, was completed in September 2015. All Pad-0A systems were returned to operational status equivalent to that which existed prior to the ORB-3 mishap. This rebuild effort was accomplished in less than a year and within the estimated budget of \$15M. Funding for the Pad-0A rebuild was split equally amongst the Commonwealth of Virginia through VCSFA, the federal government through NASA, and the launch vehicle provider, Orbital ATK.

Environmental monitoring and regulatory processing from the ORB-3 launch failure continued through FY16 and are effectively complete following the extensive cleanup process in the previous year. VCSFA enrolled in a Voluntary Remediation Program (VRP) through the Virginia Department of Environmental Quality and should finalize the remaining administrative actions, including submission of a Demonstration of Completion letter, in the fourth quarter of 2016.

Occurring simultaneously, but funded separately from the Pad-0A rebuild, was an additional construction effort to add new ground systems to support the upgraded Antares 230 vehicle. These vehicle modifications were designed and funded directly by Orbital ATK to meet the requirements of the new RD181 engines on the Antares 230. These upgrades were added concurrently with the Pad Rebuild and performance testing was completed in the beginning of November 2015.

Throughout the rebuild process, VCSFA was able to take advantage of the non-launch period to perform time consuming maintenance activities on the facility including refurbishment of the flame trench, corrosion control, painting of pressure vessels, and helium compressor off-site maintenance.

A Wet Dress Rehearsal and Hot Fire Stage Test of the Antares 230 were successfully completed in May 2016. During the vehicle and ground integrated tests, both the rebuilt and newly added vehicle modifications systems performed nominally and were proven ready for launch. Post Stage Test repairs are complete and Pad preparations are on track to support the Return to Flight launch of the Antares 230 for the OA-5 International Space Station (ISS) Resupply mission.

Virginia Commercial Space Flight Authority Management's Discussion and Analysis – (Unaudited)

UAS Runway Construction

Construction activities for Virginia Space's new, purpose-built UAS runway located on the north end of Wallops Island began in early 2016. The Virginia Department of Transportation (VDOT) was selected as the Construction Management group for the project, bringing extensive engineering, regulatory and project management experience. As charged by the Virginia Secretary of Transportation, partnering with VDOT provided an efficiency of operations and expertise which resulted in a fiscally responsible use of resources within the Secretariat. The project is progressing within budget and on schedule for operations to begin in early 2017. Business development efforts for UAS customers are on-going with significant interest shown from a wide range of organizations.

STEM Activities

The Virginia Space summer internship program continues to be both a successful STEM initiative as well as a productive feeder program of local talent for the spaceport. For FY16, VCSFA hired three engineering interns from a pool of over fifty applicants. Additionally, three technical students were selected by the Eastern Shore Community College (ESCC) for the twelve-week summer program. The interns attended an initial orientation with exposure to aerospace careers with emphasis on launch. Mentors provided on-the-job training (OJT) and guided them through detailed capstone projects, which were actual value-added solutions to ongoing work at the Spaceport. Each of the ESCC students completed their associates degree by the conclusion of the internship program and all three were offered and accepted a full-time position with Virginia Space. The three engineering interns have returned for their senior year at either the University of Virginia or the University of Maryland and will be considered for positions as available next summer. This was the fifth year for the VCSFA internship program; during that time period, eighteen students have participated and twelve are now full-time Virginia Space employees.

In addition to the Spaceport led internship program mentioned above, VCSFA sponsors an additional student each summer to participate in the NASA WFF led summer internship program. This year VCSFA sponsored a Geographic Information Systems (GIS) student from Salisbury University to work in the Range and Mission Management Office. Over the summer, the intern worked to identify and develop approaches to harness GIS in support of Range mission planning, analysis and operations.

Lastly, as the original STEM initiative developed by Virginia Space over fifteen years ago, the Virginia Space Flight Academy (VSFA) promotes STEM education by providing six weeks of co-ed residential summer camps for youths aged 11-16 years. Virginia Space supports the VSFA by providing four scholarships annually and tours of the Mid-Atlantic Regional Spaceport. Campers personally learn from the MARS engineers and technicians what it takes to maintain the facility and launch rockets.

New Business

Virginia Space anchor tenant, Orbital ATK, announced on January 14, 2016 that it was selected by NASA for a second contract to provide commercial cargo delivery and disposal services to and from the ISS. Under the Commercial Resupply Services-2 (CRS-2) contract, the company was awarded six initial cargo missions, valued at about \$1.2 - \$1.5 billion, to be carried out beginning in 2019. NASA may award additional missions for the 2021-2024 period based on operational requirements of the ISS.

Virginia Space exhibited at, and company representatives attended, the 32nd Annual Space Symposium held in Colorado Springs on April 11-14. Business development meetings were held with representatives from national and international launch providers. Virginia Space and NASA WFF advanced projects office representatives partnered during most of these meetings to provide an overview of full capabilities of the launch pads and WFF supporting facilities and services. Briefings were also conducted with USAF high level officers and aerospace industry representatives to provide an update on the Department of Defense (DoD) funded enhancements to the MARS facilities.

Virginia Commercial Space Flight Authority Management's Discussion and Analysis – (Unaudited)

External Relations

Virginia Space participated in the Governor's Transportation Conference 2015 (GTC) held October 28-30, 2015 at the Virginia Beach Convention Center. Executive Director Dale Nash provided an annual update on spaceport activities and Virginia Space sponsored both a booth and STEM media clip featuring Dr. Linda Glover, President of ESCC, which highlighted the successful internship opportunities at both MARS and NASA WFF.

VCSFA Board Chair and executive management participated in the annual Aerospace Days 2016 at the Virginia General Assembly on February 3-4, 2016. Meetings were held in conjunction with NASA Langley and NASA WFF with the Governor, Lt. Governor, Secretary of Transportation and Secretary of Natural Resources. Virginia Space representatives met separately with other agency heads and legislators to discuss completion of the Spaceport's rebuild and modifications, Return to Flight progress, and future capital projects expenditures needed at Wallops Flight Facility to attract additional users to the Spaceport, WFF and the Wallops Research Park Facility. Virginia Space helped sponsor the legislative reception, and had an exhibit booth.

Virginia Space supported the Hampton Roads Transportation Career Expo, promoting the summer internship program at the Spaceport and messaging careers in transportation span all occupations such as engineering, business management and administration, accounting, marketing, and skilled technicians.

Additionally, Virginia Space worked with state and regional political leaders, as well as the local NASA team to promote bringing the Triton UAV program to Wallops. This large US Navy program could significantly grow the UAS footprint on the eastern shore of Virginia with approximately 400 jobs. The Navy is considering the establishment of facilities and functions to support Triton UAS at one of three locations: NS Mayport, Naval Air Station Key West and NASA WFF.

Other Significant Activities

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 hosting a spaceport licensed by the FAA to launch spacecraft into orbit or on interplanetary trajectories. MARS is only one of two locations that provide cargo resupply services to the ISS. MARS is also only one of three locations that currently provide Operationally Responsive Space (ORS) 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 MARS and maintain the newly developed launch capabilities as well as our Nation's assured access to space.

Through these efforts, VCSFA secured DoD funding for FY16 to develop spaceport capability improvements enhancing launches into mid-to-low inclination orbits in support of the national security space program. Three subtasks were performed and contained specific projects with an overarching focus on enhancing rapid-response launch capability, ground system reliability, up-time for launch support, and increasing security protocols for Pad-0A.

From a capital risk and indemnification perspective, Virginia Space has continued to lead efforts on Capitol Hill and among industry to encourage updates to the Commercial Space Launch Act (CSLA) and FAA AST regulations to include insurance coverage for state and local government property in the event of an accident. This advocacy resulted in direction in the CSLA reauthorization requiring the Government Accountability Office (GAO) to conduct a full review of the issue and its final report is expected in November 2016. Virginia Space has continued to raise this concern on every possible legislative vehicle, including appropriations bills, the FAA reauthorization and NASA reauthorization.

Regarding risk management, Orbital ATK agreed to obtain insurance to cover third party claims and damage to US Government property arising from licensed launch activities, maintain insurance coverage for Commonwealth of Virginia assets during licensed launch activities, and provide coverage for repair of property from loss or damage that does not arise from licensed launch activities, including special hazards coverage.

**Virginia Commercial Space Flight Authority
Management's Discussion and Analysis – (Unaudited)**

In addition to the insurance, the new Launch Service Agreement includes a provision for Orbital ATK to provide Virginia Space with access aboard future Antares launches to host twelve U-size CubeSat satellites. Virginia Space will partner with Virginia and regional STEM organizations to select satellites to ride aboard the Antares as secondary payloads enabling valuable time on orbit for science missions.

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, 2016

ASSETS

Current assets:

Cash (Note 2)	\$ 5,813,515
Accounts receivable	2,217,847
Funds held by Virginia Department of Transportation (Note 2)	4,341,692
Due from Old Dominion University Research Foundation (Note 4)	3,224,798
Other current assets	<u>453,687</u>

Total current assets	<u>16,051,539</u>
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Nondepreciable capital assets:

Construction-in-progress (Note 3)	<u>2,660,993</u>
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Depreciable capital assets, net accumulated depreciation (Note 3):

Launch pad facilities	120,319,443
Machinery and equipment	1,841,620
Land improvements	175,000
Computer equipment	139,641
Office furniture	<u>23,666</u>

122,499,370

Accumulated depreciation	<u>(14,510,014)</u>
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107,989,356

\$ 126,701,888

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable and accrued expenses	\$ 1,783,615
Unearned revenue	<u>1,000,066</u>

Total current liabilities	<u>2,783,681</u>
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Net position:

Net investment in capital assets	110,650,349
Restricted for:	
Unmanned Aircraft Systems Runway	5,085,943
Unrestricted	<u>8,181,915</u>

Total net position	<u>123,918,207</u>
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\$ 126,701,888

Virginia Commercial Space Flight Authority
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2016

Operating revenue:	
Launch support revenue - private	\$ 7,049,986
Commercial launch fees	<u>600,000</u>
Total operating revenue	<u>7,649,986</u>
Operating expenses:	
Subcontract services	12,768,867
Administration	6,620,209
Depreciation	4,787,262
Other	<u>480,298</u>
Total operating expenses	<u>24,656,636</u>
Net operating loss	<u>(17,006,650)</u>
Nonoperating revenue (expenses):	
State appropriation	21,600,000
Federal contracts	5,606,334
Private contracts	4,654,461
Expenses related to grants and contracts	<u>(9,181,085)</u>
Total nonoperating revenue	<u>22,679,710</u>
Change in net position	5,673,060
Net position, beginning of year	<u>118,245,147</u>
Net position, end of year	<u>\$ 123,918,207</u>

Virginia Commercial Space Flight Authority
Statement of Cash Flows
Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 6,673,025
Cash paid to employees	(5,283,958)
Cash paid to suppliers	<u>(11,051,722)</u>
Net cash used by operating activities	<u>(9,662,655)</u>
Cash flows from noncapital financing activities:	
Cash received from state appropriation	15,800,000
Cash received from federal contracts	4,673,065
Cash received from private contracts	3,618,364
Cash paid to employees on nonoperating projects	(1,056,969)
Cash payments for grants and contracts	<u>(9,680,014)</u>
Net cash provided by noncapital financing activities	<u>13,354,446</u>
Cash flows from capital financing activities:	
Cash received from state appropriation	1,458,308
Cash received from federal contracts	1,672,665
Investment in construction-in-progress	(2,660,993)
Investment in capital assets	<u>(85,275)</u>
Net cash provided by capital financing activities	<u>384,705</u>
Net change in cash	4,076,496
Cash, beginning of year	<u>1,737,019</u>
Cash, end of year	<u><u>\$ 5,813,515</u></u>
Reconciliation of net operating loss to net cash from operating activities:	
Net operating loss	\$ (17,006,650)
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	4,787,262
Changes in assets and liabilities:	
Increase in accounts receivable	(1,119,972)
Increase in other current assets	(308,478)
Decrease in accounts payable and accrued expenses	(195,049)
Increase in unearned revenue	143,011
Net change in Due to/from Old Dominion University Research Foundation	<u>4,037,221</u>
Net cash used by operating activities	<u><u>\$ (9,662,655)</u></u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

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

The Authority is considered a component unit of the Commonwealth of Virginia (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 pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected not to apply FASB pronouncements issued after the applicable date.

Credit risk and concentration

At June 30, 2016, cash balances of \$5,813,515 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, if any. Allowances are reported when accounts are proven to be uncollectible. At June 30, 2016, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

Virginia Commercial Space Flight Authority Notes to Financial Statements

Funds Held by Virginia Department of Transportation

Funds held by Virginia Department of Transportation (VDOT) represents the unspent portion of the funds appropriated to the Authority for the Unmanned Aircraft Systems (UAS) project. During 2016, the Authority entered into an agreement with the VDOT, whereas the Authority transferred \$5 million of the appropriated funds to VDOT. VDOT will manage the construction of the UAS runway; however, the UAS runway remains a capital asset of the Authority. As of June 30, 2016, \$658,308 had been expended on the UAS runway project and is included in construction-in-progress on the statement of net position. The remaining \$4,341,692 of unexpended appropriated funds is funds held by VDOT on the statement of net position.

Unearned revenue

Unearned revenue includes amounts billed under private contracts in anticipation of launch fee progress payments that occurred subsequent to year-end, and unspent funds provided by Orbital ATK for Pad 0A repair in accordance with Modification #1 to the Launch Site Access and Operations Support Agreement.

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 private contracts and the cost of the overall administration of the Authority and the depreciation of its capital assets. Non-operating revenue and expenses generally relate to funds received from private, state and federal cooperative agreements associated with the development of space launch capabilities and return to flight through Pad 0A rebuild activities.

Restricted net position

During 2016, the Authority received \$5.8 million of appropriations from the Commonwealth of Virginia restricted for UAS runway. During 2016, \$55,749 was spent on business development activities and \$658,308 was invested in construction-in-progress. As the UAS runway project was ongoing at year-end, the \$5,085,943 of unexpended funds are considered restricted at June 30, 2016.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 26, 2016, the date the financial statements were available to be issued.

Virginia Commercial Space Flight Authority
Notes to Financial Statements

3. Capital Assets

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

	<u>Balance July 1, 2015</u>	<u>Acquired Increased</u>	<u>Disposals (Decreased)</u>	<u>Balance June 30, 2016</u>
Nondepreciable capital assets:				
Construction-in-progress	\$ -	2,660,993	-	<u>\$2,660,993</u>
Depreciable capital assets:				
Launch pad facilities	\$120,319,443	\$ -	\$ -	\$120,319,443
Machinery and equipment	1,762,366	79,254	-	1,841,620
Land improvements	175,000	-	-	175,000
Computer equipment	136,718	6,021	(3,098)	139,641
Office furniture	23,666	-	-	<u>23,666</u>
Total depreciable assets	<u>122,417,193</u>	<u>85,275</u>	<u>(3,098)</u>	<u>122,499,370</u>
Accumulated depreciation:				
Launch pad facilities	9,167,509	4,599,128	-	13,766,637
Machinery and equipment	332,471	156,656	-	489,127
Land improvements	152,772	3,333	-	156,105
Computer equipment	58,563	26,825	(3,098)	82,290
Office furniture	14,535	1,320	-	<u>15,855</u>
Total depreciation	<u>9,725,850</u>	<u>4,787,262</u>	<u>(3,098)</u>	<u>14,510,014</u>
Capital assets - net	<u>\$112,691,343</u>	<u>\$ (2,040,994)</u>	<u>\$ -</u>	<u>\$110,650,349</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:

Launch pad facilities	7 - 25 years
Machinery and equipment	4 - 15 years
Land improvements	15 years
Computer equipment	5 years
Office furniture	5 - 7 years

4. Due to / from Old Dominion University Research Foundation

As discussed at Note 2, the Research Foundation serves as the Authority's fiscal agent and holds the Authority's cash in a commingled account with Research Foundation cash. The Authority has advanced funds to the Research Foundation of \$3,224,798 as of June 30, 2016. The Research Foundation has short-term investments available to refund these advances and will do so as cash is needed by the Authority. The Authority paid the Research Foundation \$88,403 for its services as fiscal agent in 2016, which is included in administration expenses on the statement of revenue, expenses and changes in net position.

Virginia Commercial Space Flight Authority
Notes to Financial Statements

5. 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. Total Authority contributions to the Plan for 2016 were \$441,236, of which \$366,334 is included in administration operating expense and \$74,902 is included in nonoperating expenses related to grants and contracts on the statement of revenue, expenses and changes in net position.

6. Commitments

At June 30, 2016, the Authority occupied office space and warehouse space and leased office equipment under various lease agreements with initial periods ranging from one to six years through fiscal year 2021.

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

<u>Year Ending</u> <u>June 30,</u>	
2017	\$ 118,858
2018	72,508
2019	60,983
2020	1,844
2021	<u>635</u>
	<u>\$ 254,828</u>

Total rent expense for 2016 was \$412,576 and is included in administration expense on the statement of revenue, expenses and changes in net position.

At June 30, 2016, the Authority has contractual commitments of approximately \$8.1 million for work remaining to be performed under outstanding contracts, approximately \$5.7 million of which will be reimbursable under separate private and federal contract agreements.

7. Virginia Local Government Risk Management Plan

The 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. The Authority also has property insurance through Swiss Re Corporate Solutions and Navigators Specialty Insurance Company which would provide up to \$10,000,000 in coverage per occurrence for Launch Pads 0A and 0B; the policies cover the Authority property from perils such as fire, flood, earthquake and named windstorms (hurricanes); there is also \$10,000,000 in coverage for equipment breakdown. An additional Terrorism and Sabotage Property Damage policy with Lloyd's Insurance provides \$10,000,000 in coverage per occurrence and in the aggregate. The Authority maintains its own insurance coverage for health and workers compensation; there is no self-insurance.

Virginia Commercial Space Flight Authority
Notes to Financial Statements

Orbital Sciences Corporation (Orbital) has also agreed to maintain insurance in amounts set forth in the Federal Aviation Administration (FAA) launch license to cover loss of or damage to U.S. Government and Commonwealth of Virginia facilities or property (including Authority facilities) that arises from licensed launch activities. This insurance includes \$50,000,000 minimum coverage for loss or damage arising from licensed launch activities as defined under applicable FAA regulations. The Authority is listed as an additional insured party on such insurance. In addition, Orbital, at no cost to the Authority, has obtained insurance with \$100,000,000 coverage for damage to Commonwealth of Virginia facilities and property (including Authority facilities), which loss or damage arises directly from Orbital's performance under the Launch Site Access and Operations Support Agreement, but does not arise from licensed launch activities as defined under applicable FAA regulations. \$25,000,000 of the \$100,000,000 coverage is dedicated to special hazards coverage, including flooding, named storms and earthquakes. The non-launch property insurance was set to expire on July 31, 2016. Subsequent to June 30, 2016, the coverage was extended through December 31, 2024 on the condition that Orbital continues to launch the Antares vehicle from the Wallops Flight Facility through that date. The Authority is also listed as an additional insured party on such insurance.

Compliance Section

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
Norfolk, Virginia

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, 2016, 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 September 26, 2016.

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 instances 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
September 26, 2016**

Other Information

Virginia Commercial Space Flight Authority

Norfolk, Virginia

Authority Officials

Board Members

(through fiscal year ended June 30, 2016)

William Readdy, Chairman

John Broderick
J. Jack Kennedy
Varun Nikore
A. Thomas Young

Randall Burdette
Aubrey Layne
Bittle Porterfield

Dale Nash, Executive Director