

**VIRGINIA COMMERCIAL SPACE
FLIGHT AUTHORITY**
A Component Unit of the Commonwealth of Virginia
FINANCIAL REPORT
June 30, 2022

CONTENTS

	Page
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	13
Statement of Revenue, Expenses and Changes in Net Position	15
Statement of Cash Flows.....	16
Notes to Financial Statements	17
COMPLIANCE SECTION	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	25
Summary of Compliance Matters.....	27
Schedule of Findings and Recommendations.....	28
OTHER INFORMATION	
Authority Officials	29

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Virginia Commercial Space Flight Authority
Norfolk, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Virginia Commercial Space Flight Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2022, 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.

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 June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Virginia Commercial Space Flight Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Notes 2, 3 and 6 to the financial statements, in 2022, the Virginia Commercial Space Flight Authority adopted new accounting guidance, *GASB Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Virginia Commercial Space Flight Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Virginia Commercial Space Flight Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Virginia Commercial Space Flight Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of Authority officials but does not include the basic financial statements and our auditor’s report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If based on the work performed, we conclude that an uncorrected material misstatement exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Virginia Commercial Space Flight Authority’s 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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 6, 2022

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

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, 2022. 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 promote industrial and economic development and scientific and technological research and development through the development and promotion of the commercial and government aerospace 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.

The Authority implemented *GASB Statement No. 87, Leases*, during 2022. This standard requires all material long-term lease commitments (assets and liabilities and any related deferred inflows and outflows, leasee or lessor) be recorded on the Authority's statement of net position and amortized and expensed or revenue recorded over the term of the lease on the Authority's statement of revenues, expenses and changes in net position. Please refer to Notes 2, 3 and 6 for additional information.

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, 2022. 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.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Statement of Net Position (Continued)

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Assets:			
Current assets	\$ 31,078,466	\$ 23,797,358	\$ 7,281,108
Construction-in-progress	6,830,169	1,962,865	4,867,304
Land	550,000	550,000	-
Depreciable capital assets, net	140,056,364	144,985,232	(4,928,868)
Other noncurrent assets	<u>969,348</u>	<u>-</u>	<u>969,348</u>
Total assets	<u>\$179,484,347</u>	<u>\$171,295,455</u>	<u>\$ 8,188,892</u>
Liabilities:			
Current liabilities	\$ 3,981,208	\$ 4,078,049	\$ (96,841)
Noncurrent liabilities	<u>1,707,927</u>	<u>-</u>	<u>1,707,927</u>
Total liabilities	<u>\$ 5,689,135</u>	<u>\$ 4,078,049</u>	<u>\$ 1,611,086</u>
Deferred Inflow of Resources:			
Deferred lease receivable	<u>\$ 1,030,460</u>	<u>\$ -</u>	<u>\$ 1,030,460</u>
Net Position:			
Net investment in capital assets	\$145,457,525	\$147,482,496	\$ (45,963)
Restricted for:			
Mid-Atlantic Regional Spaceport Facilities	10,380,681	10,731,379	(350,698)
Accomack County Regional Airport Hangar	940,225	1,000,000	(59,775)
Unrestricted	<u>15,986,321</u>	<u>8,003,531</u>	<u>6,003,782</u>
Total net position	<u>\$172,764,752</u>	<u>\$167,217,406</u>	<u>\$ 5,547,346</u>

The increase in current assets of \$7,281,108 is associated with an increase in cash of \$8,727,499. Primarily due to unknowns surrounding the COVID-19 pandemic, we budgeted conservatively both for revenues and expenses for FY22. The appropriation we received was much larger than we could comfortably forecast, and we successfully managed our budgeted expenses at the conservative amount. The remaining variance in current assets is due to a decrease in both accounts receivable and prepaid expenses.

The increase in construction-in-progress of \$4,867,304 is primarily associated with the capital projects associated with the execution of the facility enhancements under the Spaceport Enhancement Program, and the beginning of the Assembly Integration & Test Facility.

The decrease in capital assets of \$4,928,868 is the result of depreciation and amortization of \$8,122,798 offset by approximately \$950,000 in new capital asset acquisitions and \$2,243,891 lease assets capitalized in FY22 as a result of the implementation of GASB 87, *Leases*.

Both the increase in noncurrent assets and increase in noncurrent liabilities is exclusively related to the implementation of GASB 87, *Leases*, and the recording of lease receivable and related deferred inflow and intangible right-to-use liabilities.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Statement of Net Position (Continued)

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 Mid-Atlantic Regional Spaceport Facilities and the Accomack County Regional Airport Hangar and depreciation charges less further investment in capital assets during the period.

The decrease in restricted net position is a result of the execution of Mid-Atlantic Regional Spaceport Facilities and the Accomack County Regional Airport Hangar projects.

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 that 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, UAS Airfield activities, Payload Processing Facility activities, interest received on our bank balance, cost of overall administration of the Authority and depreciation and amortization of its capital assets. Nonoperating revenue and expenses generally relate to funds received from Commonwealth of Virginia appropriations and both federal and commercial agreements associated with the development of space launch, PPF and UAS 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.

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Total operating revenue	\$ 11,309,856	\$ 13,411,178	\$ (2,101,322)
Total operating expenses	<u>(35,057,436)</u>	<u>(33,614,199)</u>	<u>(1,443,237)</u>
Net operating loss	(23,747,580)	(20,203,021)	(3,544,559)
Total nonoperating revenue	<u>29,294,926</u>	<u>27,445,642</u>	<u>1,849,284</u>
Change in net position	5,547,346	7,242,621	(1,695,275)
Net position, beginning of year	<u>167,217,406</u>	<u>159,974,785</u>	<u>7,242,621</u>
Total net position, end of year	<u>\$172,764,752</u>	<u>\$167,217,406</u>	<u>\$ 5,547,346</u>

The decrease in operating revenue of \$2,101,322 is primarily due to the decrease in launch support revenue – private of \$1,200,366, decrease in commercial launch fees of \$540,000 and a decrease in payload processing fees of \$540,000. Operating expenses increased \$1,443,237 due to the increase in our labor force associated with specific mission and safety requirements.

The increase in nonoperating revenue of \$1,849,284 is primarily due to the net of the decrease in our appropriation and increased execution of Federal contracts.

For more detailed information see the accompanying Statement of Revenue, Expenses and Changes in Net Position.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

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 of operating cash flows are from launch fees, launch support activities, Payload Processing Facility activities and UAS Airfield activities. The primary uses of operating cash flows are payments to personnel, including salaries, wages, and fringe benefits and payments to suppliers and subcontractors. Cash flows from noncapital financing activities reflect the nonoperating noncapital sources and uses of cash. The primary source of noncapital financing activities cash flows is \$23,904,390 from the Commonwealth of Virginia's annual appropriation. The primary uses of noncapital financing activities cash flows are to support cash requirements of operations and to support non-capital activities related to MARS facility enhancements. Cash flows from capital financing activities reflect the nonoperating capital sources and uses of cash. The primary source of capital financing cash flows is from Federal and Commercial contracts for MARS facilities enhancements. The primary uses of cash flows from capital financing activities were for investment in construction in progress and capital assets.

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Cash flows used by operating activities	\$ (16,210,803)	\$ (11,746,184)	\$ (4,464,619)
Cash flows provided by noncapital financing activities	23,019,575	14,477,804	8,541,771
Cash flows provided by capital financing activities	<u>1,918,727</u>	<u>4,832,147</u>	<u>(2,913,420)</u>
Net change in cash	<u>\$ 8,727,499</u>	<u>\$ 7,563,767</u>	<u>\$ 1,163,732</u>

Capital Assets

The Authority's capital assets consist primarily of Launch Pad 0A, Launch Pad 0B, Launch Pad 0C at the Mid-Atlantic Regional Spaceport, the Integrated Control Facility, UAS Airfield and the Payload Processing Facility, and related support machinery and equipment.

Significant Events

Introduction

The Virginia Commercial Space Flight Authority (VCSFA), also known as Virginia Space, owns and operates the Mid-Atlantic Regional Spaceport (MARS) located on the National Aeronautics and Space Administration (NASA) Wallops Flight Facility (WFF) at Wallops Island, Virginia. Virginia Space engages with NASA through a renewable Space Act Agreement that includes range activities, land use for MARS and other services. MARS is licensed by the Federal Aviation Administration (FAA) Office of Commercial Space Transportation for vertical, orbital launch for small and medium class vehicles.

Roosevelt "Ted" Mercer Jr., Major General, USAF (ret), was appointed CEO and Executive Director of the Virginia Commercial Space Flight Authority on June 10, 2021, and officially took over on August 1, 2021. Since his appointment, among his several achievements Gen. Mercer completed an agreement with Rocket Lab that will bring 246 additional jobs to the Eastern Shore. Per the agreement, Rocket Lab (RL) will manufacture their Neutron Rocket on 28 acres of Virginia Space owned land adjacent to the NASA Wallops Island gate. The Virginia Space-owned manufacturing facility will be leased to Rocket Lab once completed and the Neutron vehicle will launch from MARS. MARS has three operational launch pads, Pad 0A, Pad 0B, and Pad 0C, all located within Launch Complex 0. Pad 0A, a Medium Class Launch Facility (MCLF), is comprised of a cryogenic liquid fuel facility with an automated

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Significant Events (Continued)

commodities system, fortified launch mount, robust electrical and Environmental Control Systems (ECS), and gravity-fed freshwater deluge system. Pad 0B, a secure Small Class Launch Facility (SCLF), is comprised of a launch stool, moveable service structure, launch equipment vault, lightning protection system, and environmental control system. Pad 0C, also referred to as LC-2, supports smaller liquid vehicles. Like Pad 0A, Pad 0C includes a cryogenic liquid fuel facility with an automated commodities system, robust electrical and environmental control systems, a gravity-fed freshwater deluge system, and adds a rotating, hydraulic launch mount and strong back structure.

Pad 0A currently hosts the Northrop Grumman (NG) Antares launch vehicle under contract to deliver cargo to the International Space Station (ISS), with potential for additional significant NASA and United States Department of Defense (DoD) payload business. Pad 0B hosts Northrop Grumman Minotaur-class launch vehicles and can also be reconfigured to host nearly any existing small class launch vehicle on the market. Pad 0C hosts Rocket Lab's Electron launch vehicle with the first flight planned for December 2022.

At the north end of Wallops Island there are two additional MARS facilities. These include a purpose-built Unmanned Aerial Systems (UAS) Airfield and a Payload Processing Facility (PPF). Additionally, Virginia Space has an Integration and Control Facility (ICF), located in the Wallops Research Park, which is currently leased to Rocket Lab.

Launch Vehicle and Payload Operations

The Antares NG-16 Mission carrying the Cygnus spacecraft launched aboard the Northrop Grumman Antares 230+ rocket on Tuesday, August 10, 2021, at approximately 06:01 p.m. Eastern Daylight Time (EDT), from MARS Pad-0A at Wallops Island, Virginia kicking off the uncrewed resupply mission to the International Space Station (ISS). Astronaut Megan McArthur aboard the ISS used the Canadian-built robotic arm to capture the S.S. Ellison S. Onizuka Cygnus cargo module at 06:07 a.m. EDT and installed it on the Unity node of the ISS on Thursday August 12, 2021. Carrying approximately 8,208 lbs. of research, supplies, and hardware, the S.S. Ellison S. Onizuka remained berthed until November 2021. The cargo launched aboard the Cygnus spacecraft included a technology demonstration to look at how future space explorers could 3D-print materials out of lunar soil. The NG-16 mission also delivered spare parts for the space station's toilet, a stowage rack for the lab's airlock, cooling fans for the station's life support system, and a "mod kit" to configure the space station's solar power truss for the arrival of the next pair of new roll-out solar arrays in late 2022.

The sixth mission under Northrop Grumman's CRS-2 contract with NASA, NG-17, was successfully launched on Saturday, February 19, 2022, at 12:40 p.m. EST, from Pad 0A. The Cygnus spacecraft flying on Northrop Grumman's NG-17 mission is named the "S.S. Piers Sellers" in honor of a space shuttle astronaut and NASA climate scientist who died from cancer in 2016. The S.S. Piers Sellers Cygnus cargo module berthed to the ISS at 07:16 a.m. ET on February 22, 2022. This mission delivered more than 8,200 pounds of cargo to the space station. Research that was delivered included investigations into the effects of a drug on cancer cells, skin aging, plant growth, and new hydrogen sensors, providing direct benefits to those on Earth and for future spaceflight and crews. On June 25, 2022, the Cygnus mission also performed the first operational limited re-boost of the ISS by a commercial vehicle, a service that had been exclusively provided by Russia since the retirement of the space shuttle in 2011. The Cygnus vehicle had been modified with this capability to re-boost ISS orbit using residual propellants in the Cygnus vehicle.

Both NG-16 and 17 used the 24-hour cargo load capability provided by launch pad and cargo loading modifications, including the use of the Mobile Payload Processing Facility (MPPF). This crucial capability was instrumental in Northrop Grumman securing the CRS-2 contract and continues to be utilized on each mission to load critical cargo into Cygnus 24 hours before the scheduled launch time.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Significant Events (Continued)

MARS Pad 0A remained in good condition following both launches with normal and expected wear and tear. The following major modifications and maintenance were made to Pad 0A in FY22, improving system performance and reliability:

- Installation of liquid nitrogen boost pump
- Hydraulic supply system accumulator isolation and valve replacement
- Muscle system upgrade
- ECS upgrades to provide remote redundancy

MARS Launch Pad 0B was offline for operations in FY22 and remained in maintenance mode with no operations conducted other than the standard preventative maintenance tasks and tower roll operations.

Pad 0C preparations are in progress to support the upcoming RL Electron launch in December 2022, the first flight of this launch vehicle from American soil. This first Electron mission from MARS moved from FY21 to FY22 due to unforeseen, extended certification efforts of NASA's Autonomous Flight Termination Unit (NAFTU) software, which is required to enable Electron launches from Virginia. Several pad upgrades are in progress to configure the pad for the new version of the Electron. System testing and maintenance is ongoing with plans to conduct a Pad Readiness Review and full systems launch-day testing to keep the team trained and ready for the upcoming initial launch.

Following the MARS PPF operations for both payload and vehicle processing for the Northrop Grumman Minotaur NROL-129 and NROL-111 missions in June 2021, MARS staff began planning facility upgrades based on lessons learned. Facility upgrades included modifications to the air handling system to improve filtration, temperature, and humidity control throughout the facility, and minor overhead crane improvements. The PPF continues to be of interest to potential customers with several customer tours of the facility conducted over the last year, we expect the activity to increase in the coming years.

MARS UAS Airfield Operations

FY22 marked the fifth year of operations for the MARS Unmanned Air Systems (UAS) Airfield and mission cadence with both existing and new customers continued at a high pace. The customer set included DoD, Naval Special Warfare Command (NSWC), Helicopter Sea Combat Wing Atlantic (HSCWA), and other high-level military operations groups. Regular operations were conducted this period supporting the US Navy (USN) performing MQ8B and MQ8C Firescout operations. Early in the year, a second Mobile Mission Command Station was added to the field to conduct MQ8C operations along with MH-60 Seahawk Manned Aircraft. The training regimens consisted of pilot, co-pilot, gunner, ordnance, reconnaissance, and surveillance teams. All operations were conducted safely and successfully with continued request for Airfield use for future operations.

The Airfield also supported Compass Systems in correlation with the HELIOS program (High Energy Laser and Integrated Optical Dazzler System) in support of integrating this technology onto USN vessels. Compass Systems flew the Tigershark and Tigerstrike configuration aircraft with a 15' wingspan with multiple sorties per day. Additionally, timing and logistics operations were held by the US Marines and the USN in conjunction with the RQ-25 Blackjack aircraft, M-60's, and offshore support.

Airfield site upgrades and improvements include an additional water tank trailer for faster and more efficient water refills for mobile lavatory water storage, additional surveillance monitors inside the hangar, increased equipment storage and a mobile office trailer for pilot workspace.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Significant Events (Continued)

Additional Program Support

Virginia Space was selected by the US Space Force, at the recommendation of Northrop Grumman, to perform an assessment and demonstration of Space Launch Complex 8 (SLC-8) Mobile Access Tower (MAT) located at Vandenberg Space Force Base in California, in preparation of a possible upcoming Minotaur IV Launch in 2023. This selection was spurred by strong support from the USSF and NG following the successful L-129 and L-111 missions launched from MARS in 2020 and 2021. A Virginia Space team conducted an assessment of the Mobile Tower in December 2021, which has not been in operation since 2011, including its rail tracks, roller wheels, structural support members, articulating gantry doors and roof, floor plates and winch systems, electrical systems, and the support infrastructure from the Launch Equipment Vault supporting the Tower. The Virginia Space team successfully validated all systems and performed movement of the tower, then returned in 2022 to perform a successful demonstration of the Mobile Access Tower functionality for the customer. The customer and partner organizations provided strong, positive feedback following the successful demonstration, and Virginia Space has stayed engaged as planning and operational support decisions continue for the mission.

The Virginia Space ThinSat program began development of its third mission of student led, small-sat payloads in September 2021. The mission goal is to provide low-cost access to space and deliver the payloads to Extreme Low Earth Orbit. This endeavor is in partnership with the Virginia Institute for Spaceflight and Autonomy (VISA) and involves three higher education institutions: Old Dominion University, the United States Coast Guard Academy, and the Virginia Polytechnic Institute and State University. The student-led payloads are one-of-a-kind U3 CubeSats that have completed preliminary and critical design reviews. Environmental testing is to be completed by NASA Wallops and final payload integration will use the resources and clean rooms provided by the Virginia Space PPF. The small-sat payloads are set to fly aboard the NG-19 mission as part of the Antares second stage in February 2023.

New Facilities in Development

Virginia Space progressed in its development of a multi-purpose seaport adjacent to the MARS UAS Airfield. The landside improvements, pier, and navigational approach channel are all progressing in the design phases concurrent with EA progress. To satisfy the obligations set forth in the National Environmental Policy Act of 1969 Virginia Space in coordination with NASA has funded an Environmental Assessment (EA) to study the environmental impacts of the proposed project. This work has been progressing slower than expected based upon regulatory review timelines and intricacies of the project. The effort is reaching its final stages and it is anticipated that both the design and environmental work will be complete in Q1 CY23.

Virginia Space completed the design of its Launch Team Facility (LTF) in early FY22. Following an update to a spaceport utilization plan, the LTF site location was moved further from the launch pads to optimize utility of the limited operational land. A new land lease is in progress with NASA for the relocated building. Following the approval of the new site, currently slated for the first quarter of FY23, value engineering and site plan design will enable a site groundbreaking in late FY23.

Virginia Space started development of a manufacturing facility located adjacent to the Wallops Island NASA property with Rocket Lab the occupant. This project is supported by a \$15M Major Employment and Investment (MEI) award from the Virginia Economic Development Partnership (VEDP) to Rocket Lab. As the first step in the development process, Virginia Space worked with Accomack County to rezone the parcel from agricultural to industrial use, which was completed July 2021. Site demolition and environmental remediation has been completed with final testing expected to be completed the second quarter of FY23, with no observations of concern to this point. Additionally, master site storm water design is nearing completion, and permits and approvals are being worked on in partnership with Accomack County. The first contracts for site construction were released and development will continue in FY23.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Significant Events (Continued)

New Facilities in Development (Continued)

Virginia Space also started development of a multiuser launch pad with shared systems between multiple pads and providers. This project, which will be designated Pad 0D, is supported by \$30M in funding through the Virginia Transportation Department's budget. Requirements and concept development work is ongoing with Rocket Lab as a first user of the new facility.

Education and STEM Activities

To enhance and grow educational programs, the first dedicated position for a professional educator at Virginia Space was created and filled at the end of FY22. The Director of Educational Talent's role includes increasing direct student and educator outreach, growing internship and apprenticeship programs, supporting student field trips to the spaceport, building enduring partnerships to establish robust student and workforce pipelines for the aerospace industry of Virginia, and ultimately enabling the MARS Spaceport to thrive as a unique educational asset for the Commonwealth.

Virginia Space's internship program continued in 2022 for its tenth year. A recruitment process brought nine interns from various universities for the 12-week summer internship program at the Spaceport and the Norfolk headquarters office. The program culminated with a capstone presentation by the interns who discussed their hands-on experience supporting impactful Virginia Space projects. Five of the interns will continue as part-time Virginia Space employees.

Additional STEM activities involved supporting the Virginia Space Coast Scholars (VSCS), a program under the umbrella of the Virginia Space Grant Consortium, which is a coalition of five Virginia colleges and universities, NASA, state educational agencies, Virginia's Center for Innovative Technology, and other institutions representing diverse aerospace education and research. Through virtual tours of MARS facilities, three groups of highly motivated tenth grade Virginia students, along with science teachers, college students, and staff, received an up-close look at MARS operations and the Virginia Space mission. It was an excellent opportunity to engage with science-focused students while promoting the Spaceport and encourage students to pursue the Authority's well-established internship program.

Virginia Space also directly supports the Virginia Space Flight Academy (VSFA), a Wallops area non-profit organization that promotes STEM education by providing six weeks of co-ed residential summer camps for youths ages 11-16. Virginia Space supports the VSFA by providing scholarships annually and tours of MARS to build enthusiasm and encouragement in science, technology, and engineering. The Virginia Space Chief Operating Officer, Sean Mulligan, serves on the Board of Directors for the Academy, providing direct support and guidance from Virginia Space for the space camp.

External Relations

External Relations efforts for FY22 were ramped up from previous years impacted by the COVID pandemic. Staff attended national conferences including the Satellite Conference, Space Symposium, AUVSI Xponential, and SPACECOM. MARS tours resumed in late Spring/early Summer 2022 for academic and business groups.

External Relations special events for FY22 included two Northrop Grumman Antares launches from MARS Pad 0A for cargo resupply to the ISS and Rocket Lab's Neutron production facility groundbreaking on April 11, 2022. In addition, MARS hosted two journalists from Space News and AviationWeek in early June to tour the launch facilities and discuss the new Rocket Lab expansions.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2022

Significant Events (Continued)

Legislative Affairs

Legislative affairs activity at both the state and federal level encompassed increased support in funding streams and business development growth for new projects and initiatives. Virginia Space hosted tours of MARS for several members of Congress, including Maryland State Senator Mary Beth Carozza and Eastern Shore congressional staff for senators Cardin and Van Hollen, representatives from the FAA, NASA, DoD, NRO and U.S. Space Force. In addition, Virginia Space has hosted tours for the Commonwealth of Virginia's Governor Glenn Youngkin, Secretary of Transportation Shep Miller, Secretary of Commerce and Trade Caren Merrick as well as other state and local business leaders.

Virginia Space was awarded funding through the Spaceports Enhancements Program in both the FY22 Senate Defense Appropriations Bill and the FY22 House Defense Appropriations Bill. Different from previous years, MARS secured \$10M for security and infrastructure enhancements out of the \$20M awarded (up from \$5M and \$10M, respectively). MARS continues its work with the House Transportation and Infrastructure Committee on vetting a new matching grants pilot program for operational spaceports for future legislative consideration and has also engaged the Senate Commerce Committee on the topic. In early 2022, MARS worked with U.S. Representative Elaine Luria and U.S. Senators Mark Warner and Tim Kaine to send a letter to the U.S. Department of Transportation seeking to amend its previous interpretation of Virginia Space's eligibility for infrastructure grant programs.

The passing of the Virginia Governor's Transportation Initiatives Bill HB29 in 2022 brought infrastructure support for MARS improvements that will enhance the capabilities of the Spaceport to support existing programs and provide access to space for new customers and programs, including the new Launch Pad 0D for customers like Rocket Lab's Neutron rocket. Additionally, Virginia Space is party to a Memorandum of Understanding between the Commonwealth of Virginia and Rocket Lab to help with site development and construction for a new production facility for the Neutron rocket. A \$15M award has been granted by the Major Employment and Investment (MEI) Commission for execution of the project. Virginia Space continues to receive approximately 1% of the Commonwealth Transportation Fund for its operations.

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.

BASIC FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2022

ASSETS

CURRENT ASSETS

Cash	\$ 30,616,886
Accounts receivable	196,583
Current portion of lease receivable (Note 3)	93,203
Other current assets, prepaid expenses	171,794

Total current assets	31,078,466
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NONDEPRECIABLE CAPITAL ASSETS (Note 4)

Land	550,000
Construction-in-progress	6,830,169

	7,380,169
--	-----------

DEPRECIABLE CAPITAL ASSETS, NET ACCUMULATED

DEPRECIATION AND AMORTIZATION (Note 4)

Launch pad facilities	140,713,614
UAS Airfield	5,984,532
Machinery and equipment	3,391,372
Building	38,778,848
Computer equipment	340,943
Land improvements	175,000
Software	158,945
Office furniture	32,722
Lease assets (Note 6)	2,243,891

	191,819,867
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Accumulated depreciation and amortization	(51,763,503)
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	140,056,364
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LONG TERM ASSETS

Lease receivable, less current portion (Note 3)	969,348
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	\$ 179,484,347
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(Continued)

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2022

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 3,698,327
Unearned revenue	11,800
Current portion of intangible right-to-use lease liabilities (Note 6)	<u>271,081</u>

Total current liabilities 3,981,208

LONG TERM LIABILITIES

Intangible right-to-use lease liabilities (Note 6)	<u>1,707,927</u>
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Total liabilities 5,689,135

DEFERRED INFLOW OF RESOURCES

Deferred lease receivable (Note 3)	<u>1,030,460</u>
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NET POSITION

Net investment in capital assets	145,457,525
Restricted for:	
Mid-Atlantic Regional Spaceport Facilities	10,380,681
Accomack County Regional Airport Hanger	940,225
Unrestricted	<u>15,986,321</u>

Total net position 172,764,752

\$ 179,484,347

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2022

OPERATING REVENUES	
Launch support revenue - private	\$ 7,763,123
Commercial launch fees	3,120,000
Other	426,733
	<hr/>
Total operating revenue	11,309,856
	<hr/>
OPERATING EXPENSES	
Subcontract services	7,707,629
Administration	13,728,172
Depreciation and amortization	8,122,796
Other	5,498,839
	<hr/>
Total operating expenses	35,057,436
	<hr/>
Net operating loss	(23,747,580)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State appropriation	23,904,390
Federal contracts	6,447,750
Federal grants	89,994
Expenses related to nonoperating activities	(1,147,208)
	<hr/>
Total nonoperating revenues	29,294,926
	<hr/>
Change in net position	5,547,346
	<hr/>
NET POSITION	
Beginning of year	167,217,406
	<hr/>
End of year	\$ 172,764,752
	<hr/> <hr/>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

OPERATING ACTIVITIES

Cash received from customers	\$ 10,591,442
Cash paid to employees	(12,058,133)
Cash paid to suppliers	(14,744,114)
	<u>(16,210,805)</u>
Net cash used by operating activities	<u>(16,210,805)</u>

NONCAPITAL FINANCING ACTIVITIES

Cash received from state appropriation	23,904,390
Cash paid to employees on nonoperating projects	(695,472)
Cash payments for nonoperating contracts	(189,341)
	<u>23,019,577</u>
Net cash provided by noncapital financing activities	<u>23,019,577</u>

CAPITAL FINANCING ACTIVITIES

Cash received from federal contracts	7,646,074
Cash received from federal grants	89,994
Investment in construction-in-progress	(5,152,713)
Investment in capital assets	(664,628)
	<u>1,918,727</u>
Net cash provided by capital financing activities	<u>1,918,727</u>

Net increase in cash	8,727,499
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CASH

Beginning of year	<u>21,889,387</u>
End of year	<u>\$ 30,616,886</u>

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Net operating loss	\$ (23,747,580)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation and amortization	8,122,796
Changes in current assets and liabilities:	
Decrease in accounts receivable	49,786
Decrease in other current assets, prepaid expenses	234,839
Decrease in accounts payable and accrued expenses	(102,446)
Decrease in unearned revenue	(768,200)
	<u>(768,200)</u>
Net cash used by operating activities	<u>\$ (16,210,805)</u>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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 promote industrial and economic development and scientific and technological research and development through the development and promotion of the commercial and government aerospace 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). The Governor appoints the 9-member board, and there is a potential financial benefit/burden to the primary government. 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.

Credit risk

At June 30, 2022, the entire cash balance of \$30,649,629 was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Adoption of new accounting standard

On July 1, 2021, the Authority adopted *GASB Statement No. 87, Leases*. The following discussions (lessee and lessor) provides the Authority's accounting policies regarding lease agreements.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

2. Summary of Significant Accounting Policies (Continued)

Lessee

The Authority is a lessee for noncancellable leases of office space, warehouse space and equipment. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the statement of net position related to these agreements.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs, if any. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. However, for the year of implementation, leases have been recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation if there were no prepayments (payments made at or before the commencement of the lease or to place the asset into service). None of the leases in place at the implementation date had such prepayments, as such, they have been recognized and measured as of the implementation date, July 1, 2021. As such, no restatement of the prior year net position was necessary.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Authority is reasonably certain to exercise.
- The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with depreciable capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Lessor

The Authority is a lessor for a noncancellable lease of business and storage space. The Authority recognizes a lease receivable and a deferred inflow of resources in the statement of net position related to these agreements. At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. However, for the year of implementation, leases have been recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation if there were no prepayments (payments made at or before the commencement of the lease). The sole lease in place at the implementation date had no such prepayments, as such, they have been recognized and measured as of the implementation date, July 1, 2021. As such, no restatement of the prior year net position was considered necessary.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

2. Summary of Significant Accounting Policies (Continued)

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Authority uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.
- The Authority monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Concentrations

The primary source of operating revenue is from launch fees and operations support with one commercial customer that has contracted with the Authority. This customer represents 99% of the total of launch support revenue - private and commercial launch fees on the statement of revenue, expenses, and changes in net position.

In addition, the Authority receives significant Federal and State support to maintain and construct infrastructure assets.

Accounts receivable and allowance for doubtful accounts

Receivables include amounts due from contracts and grants for reimbursable expenditures in excess of receipts 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, 2022, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

Capital assets

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 and UAS airfield facilities	7 - 25 years
Building	10 years
Machinery and equipment	4 - 15 years
Computer equipment	5 years
Land improvements	15 years
Software	3 years
Office furniture	5 - 7 years
Lease assets	5 - 47 years

Maintenance and ordinary repairs are charged to expense as incurred. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized.

Unearned revenue

Unearned revenue primarily includes contract funds received but not earned due to contract milestones that will be met in fiscal year 2023.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

2. Summary of Significant Accounting Policies (Continued)

Unearned revenue

Unearned revenue primarily includes contract funds received but not earned due to contract milestones that will be met in fiscal year 2023.

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 and amortization 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 and UAS capabilities.

Restricted net position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

During the prior fiscal year ended June 30, 2021, the Authority received \$7,500,000 of appropriations from the Commonwealth of Virginia restricted for the construction of Mid-Atlantic Regional Spaceport (MARS) Facilities (\$2.5 million for hangar construction for unmanned vehicle operations and \$5 million for development of an improved launch team maintenance facility complex) and an additional \$1,000,000 for the Accomack Regional Airport hangar. In addition, restricted funds continue to be carried over from June 30, 2020, for improvement of the waterfront facilities and UAS facilities. At June 30, 2022, \$2,147,606 was invested in these projects. As the projects were ongoing at year-end, the \$11,320,906 of unexpended funds are considered restricted at June 30, 2022 which includes some funds unexpended the from prior years appropriations for the MARS facility.

3. Lease Receivable / Deferred Inflow of Resources

The Authority is a lessor for a noncancellable lease of business and storage space with Rocket Lab USA, Inc. (Rocket Lab). During 2022, the Authority adopted *GASB 87, Leases*, and recognized a lease receivable with an outstanding balance of \$1,062,551, of which \$93,203 is current, and deferred inflow of resources of \$1,030,460, as of June 30, 2022. During 2022, the Authority used a discount rate of 3.25% and recognized lease revenue of \$121,230 and interest revenue of \$35,839, both of which are included in other operating revenues on the statement of revenue, expenses and changes in net position.

Future maturities of the lease receivable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 93,203	\$ 33,170	\$ 126,373
2024	100,767	30,030	130,797
2025	108,737	26,638	135,375
2026	117,133	22,980	140,113
2027	125,973	19,042	145,015
2028-2032	<u>516,738</u>	<u>31,256</u>	<u>547,994</u>
	<u>\$ 1,062,551</u>	<u>\$ 163,116</u>	<u>\$ 1,225,667</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

4. Capital Assets

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

	Balance July 1, 2021, as restated	Acquired (Increased)	Disposals (Decreased)	Balance June 30, 2022
Nondepreciable capital assets:				
Land	\$ 550,000	\$ -	\$ -	\$ 550,000
Construction-in-progress	<u>1,962,865</u>	<u>5,394,033</u>	<u>(526,729)</u>	<u>6,830,169</u>
Total nondepreciable capital assets	<u>2,512,865</u>	<u>5,394,033</u>	<u>(526,729)</u>	<u>7,380,169</u>
Depreciable capital assets:				
Launch pad facilities	140,713,614	-	-	140,713,614
UAS Airfield	5,984,532	-	-	5,984,532
Machinery and equipment	3,001,906	389,466	-	3,391,372
Building	38,224,946	553,902	-	38,778,848
Computer equipment	340,943	-	-	340,943
Land improvements	175,000	-	-	175,000
Software	158,945	-	-	158,945
Office furniture	<u>26,053</u>	<u>6,669</u>	<u>-</u>	<u>32,722</u>
Total depreciable capital assets	<u>188,625,939</u>	<u>950,037</u>	<u>-</u>	<u>189,575,976</u>
Accumulated depreciation:				
Launch pad facilities	39,604,464	6,013,972	-	45,618,436
UAS Airfield	942,885	299,503	-	1,242,388
Machinery and equipment	1,510,587	380,195	-	1,890,782
Building	1,023,311	1,066,496	-	2,089,807
Computer equipment	220,555	33,017	-	253,572
Land improvements	172,778	2,222	-	175,000
Software	141,284	17,661	-	158,945
Office furniture	<u>24,843</u>	<u>2,433</u>	<u>-</u>	<u>27,276</u>
Total accumulated depreciation	<u>43,640,707</u>	<u>7,815,499</u>	<u>-</u>	<u>51,456,206</u>
Total depreciable capital assets, net	<u>144,985,232</u>	<u>(6,865,462)</u>	<u>-</u>	<u>138,119,770</u>
Amortizable lease assets:				
Office and warehouse space	<u>2,243,891</u>	<u>-</u>	<u>-</u>	<u>2,243,891</u>
Accumulated amortization for:				
Office and warehouse space	<u>-</u>	<u>307,297</u>	<u>-</u>	<u>307,297</u>
Total amortizable lease assets, net	<u>2,243,891</u>	<u>(307,297)</u>	<u>-</u>	<u>1,936,594</u>
Capital assets, net	<u>\$ 149,741,988</u>	<u>\$ (1,778,726)</u>	<u>\$ (526,729)</u>	<u>\$147,436,533</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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 2022 were \$820,077, which is included in administration operating expense on the statement of revenue, expenses and changes in net position.

6. Intangible Right-to-Use Lease Liabilities and Lease Assets

The Authority is a lessee for noncancellable leases of office space, warehouse space and equipment. During 2022, the Authority adopted GASB 87, Leases, and recognized lease assets and intangible right-to-use lease liabilities. The following is a summary of changes in intangible right-to-use lease liabilities reported in the statement of net position for the fiscal year ended June 30, 2022:

Intangible right-to-use lease liabilities - July, 1, 2021, as restated	\$ 2,243,891
Additions	-
Subtractions	<u>(264,883)</u>
Balance - June 30, 2022	1,979,008
Less - current portion of intangible right-to-use lease liabilities	<u>(271,081)</u>
Intangible right-to-use lease liabilities - June 30, 2022	<u>\$ 1,707,927</u>

Future maturities are as follows:

	Principal	Interest	Total
2023	\$ 271,081	\$ 60,377	\$ 331,458
2024	287,654	51,322	338,976
2025	304,957	41,717	346,674
2026	323,018	31,538	354,556
2027	228,904	22,434	251,338
2028-2032	457,439	32,403	489,842
2033-2037	8,036	16,964	25,000
2038-2042	9,452	15,548	25,000
2043-2047	11,118	13,882	25,000
2048-2052	13,076	11,924	25,000
2053-2057	15,380	9,620	25,000
2058-2062	18,090	6,910	25,000
2063-2067	21,277	3,723	25,000
2068-2072	<u>9,526</u>	<u>474</u>	<u>10,000</u>
	<u>\$ 1,979,008</u>	<u>\$ 318,836</u>	<u>\$ 2,297,844</u>

Related lease assets totaling \$2,243,891, offset by accumulated amortization of \$307,297, are included in depreciable capital assets, net accumulated depreciation and amortization in the statement of net position as of June 30, 2022.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

7. Commitments

As discussed at Note 6, the Authority is a party to several leases for office space, warehouse space and equipment. Rent expense was \$360,962 in 2022 and is included in administration operating expenses on the statement of revenue, expenses and changes in net position. Future payments under these leases is disclosed at Note 6.

At June 30, 2022, the Authority has contractual commitments of approximately \$5.3 million for work remaining to be performed under outstanding contracts, approximately \$3.3 million of which will be reimbursable under separate private and federal contract agreements, and approximately \$300,000 of which are funded by the Commonwealth of Virginia.

Effective July 1, 2022, subsequent to year-end, the Authority entered into a lease agreement for office space in Norfolk, Virginia. The lease term extends through December 31, 2027, with monthly payments of \$10,000, increasing on an annual basis beginning December 31, 2022, by two and one-half percent (2.5%). This lease will be recognized by the Authority in 2023.

8. Virginia Commercial Space Flight Authority 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 with an insurance limit of \$25,000,000. The Authority also has property insurance through Travelers Insurance Company with coverage in the amount of \$1,850,000 for the Norfolk, Wallops Island and Decoy Square offices and the Integration Control Facility. The policy covers the Authority business personal property from perils such as fire, flood, earthquake, windstorms, and equipment breakdown. The Authority also has property insurance through Lexington Insurance Company with coverage in the amount of \$28,000,000 for the Payload Processing Facility and \$1,000,000 for the UAS Airfield Hangar. The policy covers the Authority business personal property from perils such as fire, flood, earthquake, windstorms, and equipment breakdown. The Authority maintains its own insurance coverage for health and workers compensation; there is no self-insurance.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

8. Virginia Commercial Space Flight Authority Risk Management Plan (Continued)

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 extends 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.

Beginning in fiscal year 2022, Rocket Lab 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. The amount of insurance obtained by Rocket Lab is no less than the FAA established maximum probable loss amount set forth in the FAA Launch License. In addition, Rocket Lab, at no cost to the Authority, has obtained commercial general liability insurance in a minimum amount of \$10 million coverage for activities other than licensed launch activities, with the Authority named as an additional insured party on such insurance.

9. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR’S 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***

To the Board of Directors of
Virginia Commercial Space Flight Authority
Norfolk, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2022, 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 6, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virginia Commercial Space Flight Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described as VA-2022-001 in the accompanying schedule of findings and recommendations.

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 Virginia Commercial Space Flight Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 6, 2022

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2022

As more fully described in the Independent Auditor's 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Conflicts of Interest Act

Uniform Disposition of Unclaimed Property Act

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported in the Independent Auditor's 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*. However, one instance of noncompliance with the Virginia State Code was noted and reported.
3. No instances of noncompliance material to the financial statements were disclosed.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

VA-2022-001: Conflicts of Interest

Condition:

Two out of ten conflict of interest forms were not filed by the February 1, 2022, deadline.

Criteria:

All conflict of interest forms should be completed and filed by the February 1, 2022, deadline.

Recommendation:

We recommend that applicable board members be contacted prior to the deadline to ensure forms are filed in a timely manner.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with this finding and will work to ensure all forms are received by the deadline in the future.

OTHER INFORMATION

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

Norfolk, Virginia

AUTHORITY OFFICIALS

BOARD MEMBERS

(through fiscal year ended June 30, 2022)

Jeff Bingham, Chairman

Edward Bolton, Jr.

Morris Foster

James McArthur, Jr.

Kathryn Thornton

Robert Kehler

Greg Campbell

Linda Thomas-Glover

The Honorable W. Sheppard Miller III

Roosevelt Mercer, Jr., CEO and Executive Director