

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

A Component Unit of the Commonwealth of Virginia

FINANCIAL REPORT

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2019, 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.

Auditor's 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 auditor's 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 financial position of the business-type activities of the Virginia Commercial Space Flight Authority as of June 30, 2019, and the 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 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 25, 2019, 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 25, 2019

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

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, 2019. 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.

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, 2019. 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)
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets:			
Current assets	\$ 14,259,422	\$ 25,347,818	\$ (11,088,396)
Construction-in-progress	37,454,120	11,254,481	26,199,639
Capital assets, net of accumulated depreciation	<u>102,398,274</u>	<u>106,472,617</u>	<u>(4,074,343)</u>
Total assets	<u>\$154,111,816</u>	<u>\$143,074,916</u>	<u>\$ 11,036,900</u>
Liabilities:			
Total current liabilities	\$ 6,503,508	\$ 2,946,047	\$ 3,557,461
Total noncurrent liabilities	<u>70,006</u>	<u>-</u>	<u>70,006</u>
Total liabilities	<u>\$ 6,573,514</u>	<u>\$ 2,946,047</u>	<u>\$ 3,627,467</u>
Net Position:			
Invested in capital assets	\$139,852,394	\$117,727,098	\$ 22,125,296
Restricted for Mid-Atlantic Regional Spaceport Facilities	804,530	11,734,445	(10,929,915)
Restricted for Unmanned Aircraft Systems Runway	-	1,020	(1,020)
Unrestricted	<u>6,881,378</u>	<u>10,666,306</u>	<u>(3,784,928)</u>
Total net position	<u>\$147,538,302</u>	<u>\$140,128,869</u>	<u>\$ 7,409,433</u>

The decrease in current assets of \$11,088,396 is associated with a decrease in cash of \$10,027,253, which is primarily related to spending the appropriation from the Commonwealth of Virginia, received in fiscal year 2018 for construction of additional facilities at the Mid-Atlantic Regional Spaceport. The remaining variance in current assets, a decrease of \$1,061,143, is due to a decrease in amounts due from the Authority's fiscal and administrative agent, Old Dominion University Research Foundation, an increase in accounts receivable offset by a decrease in other current assets consisting of prepaid insurance costs and other miscellaneous items.

The increase in construction-in-progress of \$26,199,639 is primarily associated with the \$30 million of construction costs incurred for the MARS Payload Processing Facility, an increase of \$19,198,598 over costs incurred during fiscal year 2018. In addition, there was \$6,594,571 of construction costs for Launch Complex 2, consisting of Pad 0C and an Integration and Control Facility (ICF), offset by a decrease of \$1,257,524 due to the capitalization of capital enhancements to Pad 0B during fiscal year 2019. The remaining increase in construction-in-progress is primarily related to MARS Site Wide Data/Com Enhancements, additional improvements to Pad 0B, and MARS Facility Security Enhancements. See Note 2 and Significant Events section of this MD&A for further discussion.

The decrease in capital assets of \$4,074,343 is the result of the completion and capitalization of enhancements to Pad 0B noted above and investments in equipment, vehicles and software offset by depreciation and amortization expense of \$5,711,969.

The increase in current liabilities of \$3,557,461 is associated with an increase in unearned revenue of \$1,918,998 and an increase in accounts payable and accrued expenses of \$1,586,696. Both the unearned revenue and increase in accounts payable and accrued expenses are related to the completion of construction of the Payload Processing Facility and ongoing construction of Launch Complex 2.

The increase in noncurrent liabilities of \$70,006 is related to a software contract obtained during 2019.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

The decrease 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 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 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, 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 federal agreements associated with the development of space launch 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>2019</u>	<u>2018</u>	<u>Change</u>
Total operating revenue	\$ 12,291,478	\$ 9,856,515	\$ 2,434,963
Total operating expenses	<u>28,214,346</u>	<u>27,855,426</u>	<u>358,920</u>
Net operating loss	(15,922,868)	(17,998,911)	2,076,043
Total nonoperating revenue	<u>23,332,301</u>	<u>36,512,238</u>	<u>(13,179,937)</u>
Change in net position	7,409,433	18,513,327	(11,103,894)
Total net position, beginning of year	<u>140,128,869</u>	<u>121,615,542</u>	<u>18,513,327</u>
Total net position, end of year	<u>\$147,538,302</u>	<u>\$140,128,869</u>	<u>\$ 7,409,433</u>

The increase in operating revenue of \$2,434,963 is primarily due to the net increase in commercial launch fee and launch support revenue of \$2,401,904 related to the Antares NG-10 and NG-11 missions as discussed further in the Significant Events section of this MD&A. Operating expenses increased \$358,920 due to the increased launch support activity.

The decrease in nonoperating revenue of \$13,179,937 is due to the \$20,000,000 appropriation from the Commonwealth of Virginia, recognized in fiscal year 2018 for the construction of additional Mid-Atlantic Regional Spaceport Facilities (no such funding was received in fiscal year 2019), offset by additional Federal contracts revenue for spaceport capability enhancements and private agreements for MARS facility enhancements received in fiscal year 2019.

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

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

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, launch support activities and UAS Airfield activities. The primary uses 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 is \$15,800,000 from the Commonwealth of Virginia annual appropriation. The primary uses 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 is a \$5,000,000 grant from the Commonwealth of Virginia for construction of Launch Complex 2 with an additional source from Federal 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>2019</u>	<u>2018</u>	<u>Change</u>
Cash flows used by operating activities	\$ (8,740,403)	\$ (12,826,085)	\$ 4,085,682
Cash flows provided by noncapital financing activities	15,724,425	16,105,303	(380,878)
Cash flows provided (used) by capital financing activities	<u>(17,011,275)</u>	<u>8,905,708</u>	<u>(25,916,983)</u>
Net change in cash	<u>\$ (10,027,253)</u>	<u>\$ 12,184,926</u>	<u>\$ (22,212,179)</u>

Capital Assets

The Authority's capital assets consist primarily of Launch Pad 0A and Launch Pad 0B at the Mid-Atlantic Regional Spaceport and the UAS Airfield, Wallops Flight Facility on the Eastern Shore of Virginia and related support machinery and equipment. As discussed further in the Significant Events section of this MD&A, the MARS Payload Processing Facility is still under construction as of June 30, 2019, hence it remains in construction-in-progress.

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 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 renewable Space Act Agreement. MARS is one of only four spaceports in the United States licensed by the FAA Commercial Space Transportation Office to launch to orbit, allowing it to compete for the venture, small, and medium class launch vehicle market providing access to the Earth's orbit and interplanetary missions.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

MARS has two pads, Pad 0A and Pad 0B, in operation and one new pad, Pad 0C, in construction. Pad 0A, a Medium Class Launch Facility (MCLF) is 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 freshwater deluge system. Pad 0B, a Small Class Launch Facility (SCLF), is comprised of a launch stool, moveable service structure, and environmental control system. Pad 0C is under construction and will serve as a Venture Class Launch Facility, supporting Rocket Lab’s Electron launch vehicle. Pad 0A currently hosts the Northrop Grumman Innovation Systems (previously Orbital ATK) Antares launch vehicle under contract to deliver cargo to the International Space Station (ISS), with potential for other significant NASA and 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. 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.

At the north end of Wallops Island, there are two additional MARS facilities. Virginia Space owns and operates a purpose-built Unmanned Aerial Systems (UAS) Airfield, and is nearing complete construction and testing to bring a new MARS Payload Processing Facility (PPF) to a fully operational state.

Launch Operations

Lighting up the early morning skies along the Eastern Seaboard, the Antares NG-10 mission successfully launched on the morning of November 17, 2018 from MARS Pad 0A at 4:01 a.m. The first launch after the Northrop Grumman acquisition of Orbital ATK was flawless. For the NG-10 mission, the enhanced Cygnus spacecraft successfully carried approximately 3,350 kg (7,359 lbs.) of supplies and science experiments and berthed with the ISS on November 19, 2018.

The Antares NG-11 mission launched at 4:46 p.m. on Wednesday April 17, 2019, after a very smooth countdown. This mission carried 3,436 kilograms (7,575 pounds) of cargo, including new flying robots that could help astronauts with chores on the space station, medical experiments, and forty mice to be studied by astronauts and researchers to examine how their immune systems cope with the conditions of spaceflight. NG-11 was the first mission at Pad 0A to conduct cargo loading operations within 24 hours of launch. Virginia Space and Northrop Grumman conducted a pathfinder for the new 24-hour cargo load capabilities in August 2018. The “late load” capability was a contractual obligation for CRS-2, the second round of ISS cargo resupply missions awarded to Northrop Grumman by NASA. While meeting the new requirement was to be implemented with NG-12, the first CRS-2 launch, the successful completion of the pathfinder activities spurred NASA to request MARS and the Northrop Grumman team to support the 24-hour cargo load one mission earlier than planned. Countdown at Pad 0A was completed without pause and the launch carrying supplies and science experiments to the ISS was an unmitigated success.

The successful completion of the NG-11 mission closes out the CRS-1 (Commercial Resupply Services-1) contract with NASA. NASA awarded Northrop Grumman the follow-on CRS-2 contract with six firm missions. The CRS-2 contract runs from 2019 thru 2024 and NG-12, scheduled for an October 2019 launch, will be the first of these missions.

In addition to routine maintenance and calibration activities on Pad 0A between launch cycles, Virginia Space completed upgrades to Pad 0A including the replacement of the Rocket Propellant Chiller and upgrades to the Heat Exchanger to improve efficiency.

In preparation for the upcoming Air Force Minotaur IV mission, Virginia Space completed major modifications to Pad 0B. The Movable Service Structure (MSS) received the addition of new doors. A new Launch Equipment Vault (LEV) was built and outfitted per customer requirements. A new lightning protection system was installed, and pad security was increased with the installation of a perimeter fence, access controls and security cameras.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

MARS UAS Airfield

Mission cadence has increased, and operational customer support has continued at a high level for Virginia Space's Unmanned Aerial Systems Airfield. With this high performance and the additional support from the Commonwealth of Virginia and visibility within DoD, the facility will continue to develop to meet the demand of unmanned surface vehicle (USV) and unmanned ground vehicle (UGV) testing.

The highlight of operations for the Airfield was a selection as the East Coast base of testing and training for the Navy's MQ-8B Fire Scout UAV program of record. Effective site planning and squadron integration accelerated the decision and allowed the Navy to conduct their first highly successful training detachment in May 2019. The success led to plans to permanently leave the control station at the airfield and schedule monthly detachments, to include manned and unmanned helicopters, for a near year-round presence at MARS.

Other UxS test programs that were supported at the airfield included NASA Langley LaRC, the Vanilla Aircraft, Special Operations command combined USV/UAV operations with the Navy's C-USV program, as well as several smaller scale sUAS flights in support of training and STEM outreach programs.

ThinSat

The Virginia Space ThinSat program celebrated its inaugural launch aboard Antares on April 17, 2019, launching sixty student-research focused ThinSats into Extreme Low Earth Orbit with a 76% satellite data downlink success rate. An exclusive event sponsored by Virginia Space brought together nearly 240 ThinSat program students, parents, teachers, professors, and volunteers on launch day to view the launch at a premier viewing site and review satellite data being received in real-time. Since the inaugural launch, the Program has garnered an ever-increasing level of interest from schools, colleges, and industry. The scientific and interactive experience provided through the ThinSat program expands opportunity for students—opening doors for higher education, trade schools, and future careers. Working with 32 lead institutions from 11 U.S. states and reaching an estimated 600 students nationwide, the Virginia Space ThinSat Program has had significant impact inspiring students in STEM fields with hands-on satellite and launch experience.

MARS Payload Processing Facility

Construction of the MARS Payload Processing Facility was nearly completed in FY2019 and operational checkouts and testing was started. The MARS PPF will provide mission processing capabilities for multiple payloads in one facility from arrival to encapsulation. The building enables customers to perform payload integration, payload fueling, stage integration and use multiple segregated processing spaces. Built to national security customer standards, the MARS PPF is designed to separate Launch Vehicle and Space Vehicle operations and personnel. Multiple customers will begin operations in the PPF within calendar year 2019.

Additional STEM Activities

Virginia Space continued a successful internship program in 2019 for the 8th year of the program. A selective recruitment process brought four engineering interns from Virginia, Maryland and Delaware universities as well as four technical students from the Eastern Shore Community College (ESCC) for the twelve-week summer internship program at the Spaceport. Program highlights from the 2019 summer included supporting the final stages of completion to the MARS Payload Processing Facility and development of the newest launch pad at MARS, Pad 0C.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

Additional STEM activities involved 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 aged 11-16 years. Virginia Space supports the VSFA by providing four scholarships annually and tours of the Mid-Atlantic Regional Spaceport to build enthusiasm and encouragement in science, technology and engineering. The Director of MARS also serves on the Board of Directors for the Academy, providing direct support and guidance from Virginia Space for the space camp.

New Business

US orbital launch provider Rocket Lab selected the Mid-Atlantic Regional Spaceport as its first US launch pad for their Electron rocket. Virginia Space and NASA Wallops won a nationwide selection to be small launch market-leader Rocket Lab's domestic launch site. The site will be Rocket Lab's second dedicated launch complex and builds on Rocket Lab's existing ability to launch up to 120 times annually from the world's only private launch site, Rocket Lab Launch Complex 1, in New Zealand. Virginia Space is building Pad 0C, also known as Launch Complex 2, which will be capable of supporting 12-18 orbital launches per year and is designed to serve US government and commercial missions for Rocket Lab.

Rocket Lab will work with Virginia Space to construct dedicated pad infrastructure at the site, tailored to the Electron launch vehicle. In addition to the pad, Virginia Space will develop an Integration and Control Facility (ICF) in the Wallops Research Park to support the simultaneous integration of up to four Electron vehicles. The facility will also contain a control room with connectivity to Pad 0C, as well as dedicated customer facilities. This new facility, combined with a future, purpose-built gantry located at Pad 0C, will provide significant and dedicated vehicle processing capability and flexibility to meet Rocket Lab's high launch cadence. Pad construction is expected to be substantially complete by the end of calendar year 2019. ICF construction and Electron launch operations are planned for FY2020.

Through construction and day-to-day operations, Rocket Lab expects to create around thirty jobs immediately to directly support Launch Complex 2, with this number predicted to increase to approximately 100 as launch frequency increases.

With the Commonwealth's continued support, work has been initiated to develop a multi-purpose seaport adjacent to the UAS Airfield. This new facility project is in the early design and conceptual phase and will support both maritime unmanned testing and provide access for barge services directly to the Spaceport on Wallops Island. Virginia Space has worked with the US Marine Administration during the development of this project and has formally applied for site designation as a M95 Marine Highway Project. Port development, in conjunction with the restricted airspace and direct routes to the Navy's operational areas has garnered increased positive attention and expectations of Wallops Island with the Office of the Secretary of Defense, Naval Sea Systems Command, Naval Air Systems Command, as well as several State and Federal Legislatures.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2019

External Relations

External Relations efforts supported focused business development, guest operations and public affairs for launch events, and legislator communications to maintain funding. With extensive outreach and relationship building during the 35th Space Symposium, the 21th Annual Small Payload Rideshare Symposium, SmallSat Symposium, AUVSI Xponential, in addition to local marketing events, interest in launching at MARS is at an all-time high. The maturity and expansion of the Venture class of rockets continues, with newer entries in the market following Rocket Lab’s lead in selecting MARS and Wallops Island for partnerships.

Current legislative affairs activity resulted in not only maintaining current funding levels with the Commonwealth to cover operational expenses, but the award of a \$5M TPOF, and two legislated additions to the Governor’s budget of \$2.5M and \$5M. The TPOF and the \$2.5M enabled Virginia Space to construct a third launch pad, Pad 0C, at MARS, which was integral to Rocket Lab choosing MARS as the location of their first launch site on U.S. soil. The \$5M, transferring in the second year of the Commonwealth budget, shall be used to improve existing waterfront facilities at the MARS UAS Airfield, including small barge and research vessel access, and for the removal of trees adjacent to the existing airfield.

CEO and Executive Director Dale Nash continues to lead Virginia Space and provide insight and input into both national and international space policy as a subject matter expert on spaceport operations. Representing the interests of commercial spaceports in the United States, Mr. Nash routinely attends meetings of the National Space Council led by Vice President Mike Pence and still serves as the Chair of the FAA AST COMSTAC Infrastructure Working Group, providing economic, technical and institutional expertise to develop effective regulations for competitive commercial launch operations. In addition, Virginia Space has toured delegations from the United Kingdom, Australia, and Japan as these countries look to expand their commercial space launch capabilities.

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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, 2019

ASSETS

CURRENT ASSETS

Cash (Note 2)	\$ 10,540,043
Accounts receivable	1,629,573
Due from Old Dominion University Research Foundation (Note 4)	1,730,074
Other current assets	359,732
Total current assets	14,259,422

NONDEPRECIABLE CAPITAL ASSETS

Construction-in-progress (Note 3)	37,454,120

DEPRECIABLE CAPITAL ASSETS, NET ACCUMULATED DEPRECIATION (Note 3)

Launch pad facilities	124,042,749
UAS Airfield	5,952,556
Machinery and equipment	2,163,780
Building	255,347
Computer equipment	220,919
Land improvements	175,000
Software	158,945
Office furniture	31,550
	133,000,846
Accumulated depreciation and amortization	(30,602,572)
	102,398,274

\$ 154,111,816

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	4,532,743
Unearned revenue (Note 2)	1,918,998
Software license payable, current portion	51,767
Total current liabilities	6,503,508

NONCURRENT LIABILITIES

Software license payable, less current portion	70,006
Total liabilities	6,573,514

NET POSITION

Investment in capital assets	139,852,394
Restricted for:	
Mid-Atlantic Regional Spaceport Facilities	804,530
Unrestricted	6,881,378
Total net position	147,538,302
	<u><u>\$ 154,111,816</u></u>

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, 2019

OPERATING REVENUES	
Launch support revenue - private	\$ 8,585,124
Commercial launch fees	3,660,000
Federal UAS Airfield	22,050
Interest	24,304
Total operating revenue	12,291,478
OPERATING EXPENSES	
Subcontract services	12,011,569
Administration	9,353,204
Depreciation and amortization	5,711,969
Other	1,137,604
Total operating expenses	28,214,346
Net operating loss	(15,922,868)
NONOPERATING REVENUES (EXPENSES)	
State appropriation	15,800,000
State grant	3,333,333
Federal contracts	5,866,638
Private contracts	50,000
Expenses related to nonoperating activities	(1,717,670)
Total nonoperating revenues	23,332,301
Change in net position	7,409,433
Net position, beginning of year	140,128,869
Net position, end of year	<u><u>\$ 147,538,302</u></u>

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, 2019

OPERATING ACTIVITIES

Cash received from customers	\$ 12,368,434
Cash paid to employees	(7,283,865)
Cash paid to suppliers	(13,824,972)
Net cash used by operating activities	(8,740,403)

NONCAPITAL FINANCING ACTIVITIES

Cash received from state appropriation	15,800,000
Cash paid to employees on nonoperating projects	(1,591,808)
Cash payments for nonoperating contracts	1,516,235
Net cash provided by noncapital financing activities	15,724,427

CAPITAL FINANCING ACTIVITIES

Cash received from federal contracts	5,652,916
Cash received from state grant	5,000,000
Cash received from private contracts	50,000
Cash received from sale of asset	6,800
Principal payments on software license payable	(42,671)
Investment in construction-in-progress	(26,797,848)
Investment in capital assets	(880,474)
Net cash used by capital financing activities	(17,011,277)
Net decrease in cash	(10,027,253)

CASH

Beginning of year	20,567,296
End of year	\$ 10,540,043

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

Net operating loss	\$ (15,922,868)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation and amortization	5,711,969
Gain on disposal of machinery and equipment	(6,800)
Changes in current assets and liabilities:	
Decrease in accounts receivable	76,956
Decrease in other current assets	82,772
Decrease in accounts payable and accrued expenses	(49,901)
Net change in due to/from Old Dominion University Research Foundation	1,367,469
Net cash used by operating activities	\$ (8,740,403)

NONCASH SUPPLEMENTARY DISCLOSURES

Property and equipment purchased with long-term debt	\$ 158,945
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The Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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). 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, 2019, the entire cash balance of \$10,540,043 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.

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 89% 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.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

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, 2019, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

Unearned revenue

Unearned revenue includes grant funds received but not earned due to eligibility requirements from the Commonwealth of Virginia for the construction of Launch Complex 2.

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 fiscal year-ended June 30, 2019, the Authority received \$20 million of appropriations from the Commonwealth of Virginia restricted for the construction of Mid-Atlantic Regional Spaceport Facilities. At June 30, 2019, \$19,195,470 was invested in the Payload Processing Facility. As the Mid-Atlantic Regional Spaceport Facilities project was ongoing at year-end, the \$804,530 of unexpended funds are considered restricted at June 30, 2019.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 25, 2019, the date the financial statements were available to be issued.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Capital Assets

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

	<u>Balance July 1, 2018</u>	<u>Acquired Increased</u>	<u>Disposals (Decreased)</u>	<u>Balance June 30, 2019</u>
Nondepreciable capital assets:				
Construction-in-progress	<u>\$ 11,254,481</u>	<u>\$ 27,457,163</u>	<u>\$ (1,257,524)</u>	<u>\$ 37,454,120</u>
Depreciable capital assets:				
Launch pad facilities	122,988,588	1,054,161	-	124,042,749
UAS Airfield	5,893,540	59,016	-	5,952,556
Machinery and equipment	2,087,798	101,854	(25,872)	2,163,780
Building	-	255,347	-	255,347
Computer equipment	212,614	8,305	-	220,919
Land improvements	175,000	-	-	175,000
Software	-	158,945	-	158,945
Office furniture	<u>31,550</u>	<u>-</u>	<u>-</u>	<u>31,550</u>
Total depreciable assets	<u>131,389,090</u>	<u>1,637,628</u>	<u>(25,872)</u>	<u>133,000,846</u>
Accumulated depreciation and amortization:				
Launch pad facilities	23,678,002	5,123,566	-	28,801,568
UAS Airfield	49,113	295,195	-	344,308
Machinery and equipment	851,175	204,459	(25,872)	1,029,762
Building	-	12,309	-	12,309
Computer equipment	152,498	33,003	-	185,501
Land improvements	162,772	3,333	-	166,105
Software	-	35,321	-	35,321
Office furniture	<u>22,913</u>	<u>4,785</u>	<u>-</u>	<u>27,698</u>
Total depreciation and amortization	<u>24,916,473</u>	<u>5,711,971</u>	<u>(25,872)</u>	<u>30,602,572</u>
Total depreciable capital assets, net	<u>106,472,617</u>	<u>(4,074,343)</u>	<u>-</u>	<u>102,398,274</u>
Capital assets - net	<u>\$117,727,098</u>	<u>\$ 23,382,820</u>	<u>\$ (1,257,524)</u>	<u>\$139,852,394</u>

Construction in process consists of the following:	<u>Incurred through June 30, 2019</u>
Payload Processing Facility	\$ 29,854,871
Launch Complex 02	6,424,845
Miscellaneous Projects	<u>1,174,404</u>
	<u>\$ 37,454,120</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Capital Assets (Continued)

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
Machinery and equipment	4 - 15 years
Computer equipment	5 years
Land improvements	15 years
Software	3 years
Office furniture	5 - 7 years

4. Due To/From Old Dominion University Research Foundation

The Research Foundation serves as the Authority's fiscal agent and has historically held the Authority's cash in a commingled account with Research Foundation cash. As of year-end, the Authority had separated their cash from the Research Foundation. As a result, the Authority has advanced funds due from the Research Foundation of \$1,730,074 as of June 30, 2019. 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 \$80,482 for its services as fiscal agent in 2019, which is included in administration expenses on the statement of revenue, expenses and changes in net position.

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 2019 were \$661,502, of which \$540,297 is included in administration operating expense and \$121,205 is included in nonoperating expenses related to nonoperating activities on the statement of revenue, expenses and changes in net position.

6. Commitments

At June 30, 2019, the Authority occupied office space, an integration control facility, and leased office equipment under various lease agreements with initial periods ranging from two to fifty years through fiscal year 2069.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

6. Commitments (Continued)

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

<u>Years Ending</u> <u>June 30,</u>	
2020	\$ 314,675
2021	288,542
2022	297,523
2023	306,863
2024	316,576
2025-2029	1,648,215
2030-2034	25,000
2035-2039	25,000
2040-2044	25,000
2045-2049	25,000
2050-2054	25,000
2055-2059	25,000
2060-2064	25,000
2065-2069	<u>20,000</u>
	<u>\$ 3,367,394</u>

Total rent expense for 2019 was \$623,018 and is included in administration expense on the statement of revenue, expenses and changes in net position.

At June 30, 2019, the Authority has contractual commitments of approximately \$14.1 million for work remaining to be performed under outstanding contracts, approximately \$7.3 million of which will be reimbursable under separate private and federal contract agreements, and approximately \$1.7 million of which are funded by the Commonwealth of Virginia.

7. 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 in the amount of \$10,000,000. The Authority also has property insurance through Continental Casualty Company which would provide up to \$10,000,000 in coverage per occurrence for Launch Pads 0A and 0B and the UAS Airfield; 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.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

7. 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.

8. New Accounting Standards

The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019. Management has not determined the effect this 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
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, 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 the business-type activities of Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2019, 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 25, 2019.

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 opinions 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 may exist that have not been identified.

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 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 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 25, 2019

OTHER INFORMATION

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

Norfolk, Virginia

AUTHORITY OFFICIALS

BOARD MEMBERS

(through fiscal year ended June 30, 2019)

Jeff Bingham, Chairman

John Broderick

Marke Gibson

Bittle Porterfield

Kathryn Thornton

Mark Flynn

James McArthur, Jr.

Linda Thomas-Glover

Shannon Valentine

Dale Nash, CEO and Executive Director