

**VIRGINIA COMMERCIAL
SPACE FLIGHT AUTHORITY
NORFOLK, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia Commercial Space Flight Authority for the year ended June 30, 2002, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2002, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance with laws and regulations that are required to be reported.

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AUTHORITY OFFICIALS

October 16, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Commercial Space Flight Authority

We have audited the accounts and records of the **Virginia Commercial Space Flight Authority** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and on compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia Commercial Space Flight Authority as of June 30, 2002, and the related statement of revenues, expenses, and changes in retained earnings, and statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Commercial Space Flight Authority as of June 30, 2002, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In planning and performing our audit of the financial statements of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2002, we considered internal control over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 23, 2002.

AUDITOR OF PUBLIC ACCOUNTS

GML:kva
kva:32

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
BALANCE SHEET
As of June 30, 2002

ASSETS

Current assets:

Cash (Note 2)	\$ 329,277
Accounts receivable	70,084
Other assets	<u>537</u>

Total current assets 399,898

Fixed assets - Net of accumulated depreciation (Note 3) 1,947,843

Total assets \$2,347,741

LIABILITIES AND FUND EQUITY

Current Liabilities:

Accounts payable	\$ 17,672
Due to Old Dominion University Research Foundation (Note 4)	<u>55,133</u>

Total current liabilities 72,805

Fund equity:

Contributed capital:

Government's contributions	375,000
Retained earnings	<u>1,899,936</u>

Total equity 2,274,936

Total liabilities and fund equity \$2,347,741

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
For the Year Ended June 30, 2002

Operating revenues:	
State appropriation	\$ 430,000
Contributed services (Note 5)	<u>54,372</u>
Total operating revenues	<u>484,372</u>
Operating expenses:	
Administration	301,893
Depreciation	120,782
Other	<u>73,378</u>
Total operating expenses	<u>496,053</u>
Operating income (loss)	<u>(11,681)</u>
Nonoperating revenues (expenses):	
Federal grants	173,165
State grants	74,041
Pass-through grant	80,586
Sponsored research	<u>(281,426)</u>
Total nonoperating revenues (expenses)	<u>46,366</u>
Net income	34,685
Retained Earnings - July 1, 2001	<u>1,865,251</u>
Retained Earnings - June 30, 2002	<u><u>\$ 1,899,936</u></u>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:

Cash received from Commonwealth of Virginia	\$ 430,000
Cash paid to employees	(208,231)
Cash paid to suppliers	(130,574)
Other operating cash receipts	168

Net cash provided by operating activities	<u>91,363</u>
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Cash flows from noncapital financing activities:

Cash received for sponsored research	303,827
Cash payments for sponsored research	<u>(281,426)</u>

Net cash provided by noncapital financing activities	<u>22,401</u>
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Cash flows from capital financing activities:

Refund on acquisition of equipment	<u>177</u>
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Net increase in cash and cash equivalents	113,941
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Cash and cash equivalents - July 1, 2001	<u>215,336</u>
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Cash and cash equivalents - June 30, 2002	<u><u>\$ 329,277</u></u>
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Reconciliation of net operating income to net cash provided by operating activities:

Net operating income (loss)	\$ (11,681)
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Adjustments to reconcile net profit to net cash provided by operating activities:

Depreciation	120,782
Contributed services, Non-cash revenues (Note 5)	(54,372)
Contributed services, Non-cash expense (Note 5)	54,372

Change in assets and liabilities:

Decrease in other assets	168
Decrease in accounts payable and accrued expenses	<u>(17,906)</u>

Net cash provided by operating activities	<u><u>\$ 91,363</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Commercial Space Flight Authority was established by Chapter 758 of the 1995 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 29.1 of Title 9 of the Code of Virginia. The Authority was created to disseminate knowledge pertaining to scientific and technological research and development among public and private entities including, but not limited to, knowledge in the area of commercial space flight, and to promote industrial and economic development. A Board of Directors, composed of 12 members, manages the Authority.

The Authority is considered a related organization of the Commonwealth of Virginia. Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are considered related organizations.

B. Fund Accounting

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.

C. Basis of Accounting

The Authority's records are maintained on the accrual basis whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

2. CASH

As of June 30, 2002, cash balances were held by the Old Dominion University Research Foundation. The Foundation maintains its cash balances in depository accounts at financial institutions with deposits insured by FDIC.

3. FIXED ASSETS

The schedule below shows the breakdown of fixed assets by category at June 30, 2002:

<u>Assets</u>	Total Fixed <u>Assets</u>	Accumulated <u>Depreciation</u>	Net Fixed <u>Assets</u>
Improvements other than buildings	\$2,104,849	\$(263,106)	\$1,841,743
Land improvements	125,000	(27,078)	97,922
Office equipment	15,505	(12,733)	2,772
Computer equipment	<u>24,827</u>	<u>(19,421)</u>	<u>5,406</u>
Total	<u>\$2,270,181</u>	<u>\$(322,338)</u>	<u>\$1,947,843</u>

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:

Office equipment	7 years
Computer equipment	5 years
Land improvements	15 years
Improvements other than buildings	20 years

4. DUE TO OLD DOMINION UNIVERSITY RESEARCH FOUNDATION

The Old Dominion University Research Foundation has advanced funds out of its reserves to finance various sponsored research programs for the Authority. The Authority will refund these advances as funds are received from grantors.

5. CONTRIBUTED SERVICES

Contributed services represent amounts paid by Old Dominion University to Authority employees on behalf of the Authority.

6. RELATED PARTY

The Authority has entered in a Limited Liability Corporation agreement with DynSpace, LLC. This agreement will create a joint venture called Flight Center One (FCO). The finalization of the agreement is incumbent on completion of a facilities lease, which is due to be completed in fiscal year 2003.

7. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued June 1999, will be implemented by the Virginia Commercial Space Flight Authority for the fiscal year ending June 30, 2003. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change as a result of this Statement. In addition, management will be required to provide a management’s discussion and analysis that gives readers an analysis of the Authority’s overall financial position and results of operations including a comparison of current year results with the prior year. The Authority has completed its assessment of the changes required by this Statement and is preparing for implementation.

8. RETIREMENT AND PENSION SYSTEMS

Certain employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS) through Old Dominion University. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia’s Comprehensive Annual Financial Report (CAFR). Other regular full-time employees receive fixed contributions of 11 percent, which can be invested through an Old Dominion University Research Foundation-sponsored 403(b) Tax Sheltered Annuity Plan or received as taxable income.

9. VIRGINIA LOCAL GOVERNMENT RISK MANAGEMENT PLAN

The Virginia Commercial Space Flight Authority is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance 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.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Norfolk, Virginia

BOARD MEMBERS

Michael Schewel, Chairman

Frederick B. Cooke, Jr., Vice-Chairman

Anne Armstrong	Wilson T. Lundy
Linda W. Banton	Frank V. Moore
Vincent C. Boles	George C. Newstrom
John D. Carr	Roseann Runte
James L. Griffith	Thomas J. Savage, Jr.

Billie M. Reed, Executive Director

Linda E. Gentry, Treasurer