Virginia Commercial Space Flight Authority

Financial Statements

Year Ended June 30, 2017

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

Board of Directors
Virginia Commercial Space Flight Authority
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Virginia Commercial Space Flight Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2017, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2017, on our consideration of the Virginia Commercial Space Flight Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Commercial Space Flight Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
September 15, 2017

Management's Discussion and Analysis - (Unaudited)

The management of the Virginia Commercial Space Flight Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Virginia Commercial Space Flight Authority for the fiscal year ended June 30, 2017. 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 on 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, 2017. 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.

	2017	2016	Change
Assets:			
Current assets	**$ 13,517,105**	$ 16,051,539	$ (2,534,434)
Construction-in-progress	**5,356,735**	2,660,993	2,695,742
Capital assets, net of accumulated depreciation	**105,776,845**	107,989,356	(2,212,511)
Total assets	**$124,650,685**	$126,701,888	$ (2,051,203)
Liabilities:			
Total current liabilities	**$ 3,035,143**	$ 2,783,681	$ 251,462
Net Position:			
Invested in capital assets	**$111,133,580**	$110,650,349	$ 483,231
Restricted for Unmanned Aircraft Systems Runway	**471,164**	5,085,943	(4,614,779)
Unrestricted	**10,010,798**	8,181,915	1,828,883
Total net position	**$121,615,542**	$123,918,207	$ (2,302,665)

The decrease in current assets of $2,534,434 is primarily associated with a decrease in Funds held by Virginia Department of Transportation of $4,206,801, which is related to the construction of the Unmanned Aircraft Systems (UAS) Airfield, and a decrease in Account Receivable of $668,451 offset by an increase in cash of $2,568,855. The remaining variance in current assets, a decrease of $228,037 is due to a decrease in amounts due from the Authority's fiscal and administrative agent, Old Dominion University Research Foundation and a decrease in other current assets consisting of prepaid insurance costs and other miscellaneous items. The increase in construction-in-progress of $2,695,742 is primarily associated with the construction of the UAS Airfield in the amount of $4,473,328 as discussed further in Note 2 and Significant Events, offset by a decrease of $2,002,685 due to the capitalization of enhancements to the Mid-Atlantic Regional Spaceport (MARS) Pad 0A during fiscal year 2017. The remaining increase in construction-in-progress is primarily related to the construction of a new Payload Processing Facility. The decrease in capital assets of $2,212,511 is the result of the completion and capitalization of enhancements to MARS Pad 0A in the amount of $2,595,343 and investments in vehicles, equipment related to the UAS Airfield and maintenance of the MARS facilities and improvements to office facilities offset by depreciation expense of $4,989,957.

The increase in current liabilities of $251,462 is associated with an increase in Unearned Revenue of $297,291 discussed further in Note 2, offset by a decrease in Accounts payable and accrued expenses of $45,829.

The increase in unrestricted net position is a result of the change in net position for the fiscal year exclusive of funds restricted for the UAS Runway and depreciation charges less further investment in capital assets during the period.

For more detailed information see the accompanying Statement of Net Position.

Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenue, Expenses and Changes in Net Position presents a summary of revenue and expense activity which resulted in the change from beginning to ending net position. The purpose of this statement is to present the Authority's operating and nonoperating revenue recognized and expenses incurred and any other revenue, expenses, gains and losses.

Operating revenue and expenses generally represent the activity associated with rocket launch activities and cost of overall administration of the Authority and depreciation of its capital assets. Nonoperating revenue and expenses generally relate to funds received from Commonwealth of Virginia appropriations and federal and private agreements associated with the development or repair 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.

	2017	**2016**	**Change**
Total operating revenue	**$ 8,133,009**	$ 7,649,986	$ 483,023
Total operating expenses	**26,359,974**	24,656,636	1,703,338
Net operating loss	**(18,226,965)**	(17,006,650)	(1,220,315)
Net nonoperating revenue	**15,924,300**	22,679,710	(6,755,410)
Change in net position	**(2,302,665)**	5,673,060	(7,975,725)
Total net position, beginning of year	**123,918,207**	118,245,147	5,673,060
Total net position, end of year	**$121,615,542**	$123,918,207	$ (2,302,665)

The increase in operating revenue of $483,023 is primarily due to increases in commercial launch fee and launch support revenue related to the Antares OA-5 Return to Flight mission on October 17, 2016, as discussed further in Significant Events. Operating expenses increased $1,703,338 as expenditures related to launch activities and facility maintenance increased with the completion of Pad 0A repairs in the prior fiscal year and the Antares Return to Flight in the current fiscal year.

The decrease in net nonoperating revenue of $6,755,410 is due to decreases in federal contracts and private agreements related to the repair of Pad 0A, a decrease in Federal contracts related to spaceport capability enhancements and a decrease in the Commonwealth of Virginia appropriation related to the UAS Runway, offset by a decrease in nonoperating expenses related to the repair of Pad 0A and spaceport capability enhancements.

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

Statement of Cash Flows

The Statement of Cash Flows provides relevant information that aids in assessment of the Authority's ability to generate cash to meet present and future obligations and detailed information reflecting the Authority's sources and uses of cash during the fiscal year. Cash flows from operating activities reflect the uses to support the essential mission and administration of the Authority. The primary sources are from launch fees and launch support activities. The primary uses are payments to personnel, including salaries, wages, and fringe benefits, payments to suppliers and subcontractors. Cash flows from noncapital financing activities reflect the nonoperating noncapital sources and uses of cash. The primary source is $15,744,376 from the Commonwealth of Virginia appropriation with additional sources from private agreements and federal contracts related to the repair and enhancement of Pad 0A. The primary uses are to support cash requirements of operations and to repair and enhance Pad 0A. Cash flows from capital financing activities reflect the nonoperating capital sources and uses of cash. The primary sources is $965,727 from a federal contract for spaceport capability enhancements with an additional source of $55,644 from the Commonwealth of Virginia appropriation. The primary uses of cash flows from capital financing activities were for investment in construction in progress and capital assets.

	2017	2016	Change
Cash flows used by operating activities	**$ (11,803,086)**	$ (9,662,655)	$ (2,140,431)
Cash flows from noncapital financing activities	**14,620,209**	13,354,446	1,265,763
Cash flows from capital financing activities	**(248,268)**	384,705	(632,973)
Net change in cash and cash equivalents	**$ 2,568,855**	$ 4,076,496	$ (1,507,641)

Capital Assets

The Authority's capital assets consist primarily of Launch Pad 0A and Launch Pad 0B at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility on the Eastern Shore of Virginia and related support machinery and equipment. The Authority's UAS Runway was completed in May 2017 with supporting infrastructure and a hangar still under construction at June 30, 2017, hence the UAS Airfield remains in construction-in-progress.

Significant Events

Introduction

The Authority, 'Virginia Space', owns and operates the Mid-Atlantic Regional Spaceport (MARS) located on the NASA Wallops Flight Facility (WFF) at Wallops Island, Virginia. Virginia Space is permitted to use the land for MARS and does business with NASA through a regularly renewed Space Act Agreement. MARS is 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 small-to-medium class launch vehicle market providing access to the Earth's orbit and interplanetary missions.

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

MARS also operates a newly completed, purpose-built Unmanned Aircraft Systems (UAS) Airfield at the north end of Wallops Island.

Launch Operations

The Antares OA-5 Return to Flight mission was successfully launched on October 17, 2016 from Virginia Space's Pad 0A. Orbital ATK's Cygnus spacecraft was launched into orbit using Orbital ATK's upgraded Antares 230 launch vehicle. The upgraded Antares features all new RD-181 engines which provide increased performance and flexibility to the Orbital ATK cargo delivery service. For the OA-5 mission, the Cygnus advanced maneuvering spacecraft successfully carried approximately 2,400 kg (5,290 lbs.) of supplies and science experiments to the International Space Station. Under the Commercial Resupply Services (CRS) contract with NASA, Orbital ATK will deliver approximately 30,000 kilograms of cargo to the space station. OA-5 is the sixth of these missions. The recently rebuilt and upgraded Pad 0A provided a clean countdown for the mission and the Pad systems performed excellently during the launch.

The Authority performed routine maintenance and calibration on Pad 0A during non-operational launch periods. Significant maintenance activities included a rebuild of a Rocket Propellant Chiller Circuit, three year certification of all pressure relief valves and the performance of a five year In Service Inspection program for certified pressure vessels and systems.

In addition to routine maintenance on Pad 0B, the Authority also started preparing for an upcoming launch in FY18. Tasks included electrical checkouts, structural retorquing, power washing and corrosion control of the gantry structure, and structural inspections of steel structures, including all hand rails and floors.

UAS Airfield

Virginia Space completed the construction of the purpose built UAS Runway, 3000 feet-long by 75-feet-wide, located on the north end of Wallops Island in early May 2017 through a partnership with the Virginia Department of Transportation (VDOT) acting as the project's construction manager. On May 18, 2017, Virginia Governor Terry McAuliffe arrived via helicopter and landed on the Vertical Take Off and Landing (VTOL) pad on the east end of the Runway. Governor McAuliffe participated in the facility ribbon cutting ceremony signifying the opening of the runway for operations. During FY17 Virginia Space also prepared drawings and approvals to build a hangar at the Airfield in FY18.

ThinSats

Virginia Space's ThinSat Program is a new STEM initiative with development started in FY17. Per the Antares launch service agreement, Virginia Space has access aboard future launches to host the equivalent of twelve U-size cube satellites. In partnership with Twiggs Space Lab, Orbital ATK, and NASA Wallops Flight Facility, Virginia Space has created a low cost satellite program that will increase student engagement and interest in Science, Technology, Engineering, and Mathematics related fields. Virginia Space will partner with the Commonwealth of Virginia and other regional STEM organizations to select and develop satellites to ride aboard the Antares as secondary payloads enabling valuable time on orbit for science missions. This will be achieved by using the ThinSat, a small satellite capable of transmitting data from low earth orbit. The ThinSat Program sets a new standard for STEM related academics in the space industry. Students from middle school to the university level will develop satellite hardware, test sensor components with low and high altitude balloon flights, analyze data, and launch an actual payload into space. Design, procurement, outreach, curricula development and planning activities are on-going with the first launch planned for FY18.

Additional STEM Activities

The Virginia Space summer internship program continues to be both a successful STEM initiative as well as a productive feeder program of local talent for the spaceport. In the summer of 2016, the Authority hired three engineering interns and three technical students were selected by the Eastern Shore Community College (ESCC) for the twelve-week summer program. The interns attended an initial orientation with exposure to aerospace careers with emphasis on launch. Mentors provided on-the-job training and guided them through detailed capstone projects, which were actual value-added solutions to ongoing work at the Spaceport. Each of the ESCC students completed their associates degrees by the conclusion of the internship program and all three were offered and accepted a full-time position with Virginia Space in FY17. In the summer of 2017, the Authority hired six engineering interns from a pool of over one hundred applicants. Additionally, three technical students were selected by the ESCC for the program. These nine students represented the largest intern class for Virginia Space to date. This was the sixth year for the Authority internship program; during that time period, twenty-seven students have participated and thirteen are now full-time Virginia Space employees.

In addition to the Spaceport led internship program, the Authority sponsors an additional student each summer to participate in the NASA WFF led summer internship program. This year the Authority again sponsored a Geographic Information Systems (GIS) student from Salisbury University to work in the Range and Mission Management Office. During his tenure, the intern developed and demonstrated a new GIS Web application to support Range Mission Planning.

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

New Business

Orbital ATK had the first of their six Cygnus flights under the CRS-2 contract authorized by NASA. This mission, named OA-12, will launch from MARS Pad-0A on an Antares and is targeted for FY19. CRS-2 is the second contract Orbital ATK was selected for by NASA to provide commercial cargo delivery and disposal services to and from the ISS.

An Orbital ATK Minotaur 1 launch from MARS Pad-0B was announced in early 2017 in support of a national security mission named L-111. The Pad-0B launch is planned for summer of 2018.

Additionally, business development efforts for UAS customers are on-going with significant interest in air, land and sea operations from a wide range of commercial and government organizations.

External Relations

Virginia Space supported the Orbital ATK media day on June 12, 2017, at NASA WFF, promoting the readiness of both the Antares 230 and MARS for upcoming cargo resupply missions to the ISS. Executive Director Dale Nash spoke regarding Commonwealth capabilities and advantages to launching from MARS, including use of a launch site that quickly responds and supports customers' operational needs with little potential for launch delay or postponement, the outstanding coastal geographic location of MARS which allows for orbital insertions between inclinations of 38 and 60 degrees and Virginia's commitment to aerospace development and commercial spaceflight. Media toured the Horizontal Integration Facility (HIF) and Pad 0A following the press conference.

The MARS UAS Airfield Ribbon Cutting Ceremony was held on May 18, 2017. The successful and event-filled day was highlighted by Virginia Governor Terry McAuliffe's flight in the Aurora Flight Sciences Centaur Optionally Piloted Aircraft (OPA) - making history as the first Governor to fly in a drone.

Partnering with NASA Wallops Flight Facility, Virginia Space exhibited at AUVSI Exponential on May 8-11, 2017, in Dallas, TX. Virginia Governor Terry McAuliffe was a keynote speaker and Executive Director Dale Nash attended a roundtable with Governor McAuliffe to discuss implementation of economic development initiatives designed to develop a 21st century workforce capable of meeting the needs of the unmanned systems industry.

Virginia Space staffed an exhibit for the Hampton Roads Unmanned Systems Opportunity Exchange on April 20-21, 2017 at the Hampton Roads Convention Center. Working to advance unmanned systems capabilities, technology commercialization and regional economic growth, Virginia Space promoted the air, land and sea testing capabilities available at the MARS UAS Airfield and NASA WFF.

Executive Director Dale Nash led the Virginia Space team at the 33rd Annual Space Symposium held in Colorado Springs on April 3-6, 2017. Virginia Space and NASA WFF advanced projects office representatives partnered for business development meetings with both commercial and government entities to provide an overview of full capabilities of the launch pads and WFF supporting facilities and services. Briefings were also conducted with USAF high level officers to provide an update on the Department of Defense upgrades to the MARS facilities. Executive Director Dale Nash also participated in the Senior Executive Forum, a C-level meeting opportunity to discuss critical issues facing the launch industry and the nation's strategic war plan with senior military and government officials in attendance. With over 10,000 attendees, Virginia Space hosted an exhibit and participated in STEM outreach tours for over 500 students.

Virginia Space participated in the annual Aerospace Days in conjunction with NASA Wallops, NASA Langley, the VA Dept. of Aviation and aerospace industry leaders at the Virginia General Assembly on February 1-2, 2017. Significant interest was expressed in the ThinSat Program and upcoming UAS Airfield ribbon-cutting ceremony. Virginia Space hosted an exhibit and sponsored the Legislative Reception featuring remarks by Governor Terry McAuliffe. Meetings were held with the Governor, Lieutenant Governor, Cabinet members and Commonwealth legislators.

With the purpose of introducing local students to careers in transportation, Virginia Space supported the Hampton Roads Transportation Career Expo sponsored by VDOT. With over 1300 high school and college students participating, the Virginia Space internship program was promoted and messaging communicated that careers in transportation span all occupations such as engineering, business management and administration, accounting, marketing, and skilled technicians.

Other Significant Activities

Environmental monitoring and regulatory processing from the ORB-3 launch failure was completed in FY17. The Authority had enrolled in a Voluntary Remediation Program (VRP) through the Virginia Department of Environmental Quality (VDEQ) following the ORB-3 launch failure on October 28, 2014. The Authority received a "Commonwealth of Virginia Voluntary Remediation Program Certification of Satisfactory Completion of Remediation" from VDEQ in March of 2017 which included a determination that, "No further action is required at the Site (Pad-0A) except for the imposition of institutional controls." The institutional controls referenced in the report include:

(1) Groundwater beneath the site shall not be used for any purpose other than environmental monitoring and testing.
(2) The site shall not be used for residential purposes.
(3) Adult construction worker, limited to 10 days per year of dermal contact with groundwater in excavation restrictive area east of launch mount.

These institutional controls were documented in a Goddard Property Record Restrictive Covenant. NASA Goddard Space Flight Center is the ultimate land owner of the Wallops Flight Facility and thereby the MARS Pad-0A Site. None of these controls should be of any consequence to Virginia Space.

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

From a capital risk and indemnification perspective, Virginia Space has continued to lead efforts on Capitol Hill and among industry to encourage updates to the Commercial Space Launch Act (CSLA) and FAA AST regulations to include insurance coverage for state and local government property in the event of an accident. This advocacy resulted in direction in the CSLA reauthorization requiring the Government Accountability Office (GAO) to conduct a full review of the issue. In November 2016, GAO released its final report based on this review and found that "Stakeholders in the space launch industry are divided on the need to change the current insurance approach, in which insurance for spaceports is not required but can be negotiated through contracts between launch companies, which operate launch vehicles, and spaceport operators, which run spaceports," and indicated that spaceports largely supported FAA regulatory changes to require launch providers to include state spaceport property in their insurance policies that cover Federal and private property, while launch providers ranged from neutral to opposed to this change. The report concluded that, "GAO recommends that FAA provide additional communication to clarify its interpretation of the financial responsibility regulations for commercial space launches." Virginia Space has continued to raise this issue with Members of Congress and appropriate federal agencies. It has supported amendments filed to be offered to the FAA reauthorization that would create an Office of Spaceports within the FAA and direct the U.S. Secretary of Transportation to develop a National Spaceports Policy to better develop a federal strategic framework on these issues.

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, 2017

ASSETS		
Current assets:		
Cash (Note 2)	$	8,382,370
Accounts receivable		1,549,396
Funds held by Virginia Department of Transportation (Note 2)		134,891
Due from Old Dominion University Research Foundation (Note 4)		3,155,443
Other current assets		295,005
Total current assets		13,517,105
Nondepreciable capital assets:		
Construction-in-progress (Note 3)		5,356,735
Depreciable capital assets, net accumulated depreciation (Note 3):		
Launch pad facilities		122,914,786
Machinery and equipment		1,977,055
Land improvements		175,000
Computer equipment		164,641
Office furniture		31,550
		125,263,032
Accumulated depreciation		(19,486,187)
		105,776,845
	$	124,650,685
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$	1,737,786
Unearned revenue		1,297,357
Total current liabilities		3,035,143
Net position:		
Net investment in capital assets		111,133,580
Restricted for:		
Unmanned Aircraft Systems Runway		471,164
Unrestricted		10,010,798
Total net position		121,615,542
	$	124,650,685

See accompanying notes.

Virginia Commercial Space Flight Authority
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2017

Operating revenue:		
Launch support revenue - private	$	7,216,085
Commercial launch fees		900,000
Launch support revenue - government		16,924
Total operating revenue		8,133,009
Operating expenses:		
Subcontract services		12,411,701
Administration		8,326,997
Depreciation		4,989,957
Other		631,319
Total operating expenses		26,359,974
Net operating loss		(18,226,965)
Nonoperating revenue (expenses):		
State appropriation		15,800,020
Federal contracts		795,211
Private contracts		540,987
Expenses related to nonoperating contracts		(1,211,918)
Total nonoperating revenue		15,924,300
Change in net position		(2,302,665)
Net position, beginning of year		123,918,207
Net position, end of year	$	121,615,542

See accompanying notes.

Virginia Commercial Space Flight Authority
Statement of Cash Flows
Year Ended June 30, 2017

Cash flows from operating activities:		
Cash received from customers	$	9,112,566
Cash paid to employees		(6,640,481)
Cash paid to suppliers		(14,275,171)
Net cash used by operating activities		(11,803,086)
Cash flows from noncapital financing activities:		
Cash received from state appropriation		15,744,376
Cash received from federal contracts		341,892
Cash received from private contracts		14,764
Cash paid to employees on nonoperating projects		(287,904)
Cash payments for nonoperating contracts		(1,192,919)
Net cash provided by noncapital financing activities		14,620,209
Cash flows from capital financing activities:		
Cash received from federal contracts		965,727
Cash received from state appropriation		55,644
Investment in construction-in-progress		(491,626)
Investment in capital assets		(778,013)
Net cash used by capital financing activities		(248,268)
Net increase in cash		2,568,855
Cash, beginning of year		5,813,515
Cash, end of year	$	8,382,370
Reconciliation of net operating loss to net cash from operating activities:		
Net operating loss	$	(18,226,965)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation		4,989,957
Loss on disposal of machinery and equipment		3,252
Changes in assets and liabilities:		
Decrease in accounts receivable		132,200
Decrease in other current assets		158,682
Increase in accounts payable and accrued expenses		223,076
Increase in unearned revenue		847,357
Net change in due to/from Old Dominion University Research Foundation		69,355
Net cash used by operating activities	$	(11,803,086)

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

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

The Authority is considered a component unit of the Commonwealth of Virginia (Commonwealth). A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

2. Summary of Significant Accounting Policies

Financial reporting entity
The activities of the Authority are accounted for in an enterprise fund. The enterprise fund is used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis, including depreciation, be financed or recovered primarily through user charges. All fund accounts of the Authority are presented in total on the financial statements.

Basis of accounting
The Authority's records are maintained on the accrual basis whereby revenue is recognized when earned and expenses are recognized when the liability is incurred. The Authority's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has the option to apply FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected not to apply FASB pronouncements issued after the applicable date.

Credit risk and concentration
At June 30, 2017, cash balances of $8,382,370 were held by the Old Dominion University Research Foundation (Research Foundation). The Research Foundation maintains its cash balances in depository accounts at financial institutions with deposits insured by the Federal Deposit Insurance Corporation.

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

Accounts receivable and allowance for doubtful accounts
Receivables include amounts due from contracts and grants for reimbursable expenditures in excess of revenue at year-end. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenue net of uncollectibles, if any. Allowances are reported when accounts are proven to be uncollectible. At June 30, 2017, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

Funds Held by Virginia Department of Transportation
Funds held by Virginia Department of Transportation (VDOT) represents the unspent portion of the funds appropriated to the Authority for the Unmanned Aircraft Systems (UAS) project. During 2016, the Authority entered into an agreement with the VDOT, whereas the Authority transferred $5 million of the appropriated funds to VDOT. VDOT will manage the construction of the UAS runway; however, the UAS runway remains a capital asset of the Authority. As of June 30, 2017, $4,865,109 had been expended on the UAS runway project and is included in construction-in-progress on the statement of net position. The remaining $134,891 of unexpended appropriated funds is funds held by VDOT on the statement of net position.

Unearned revenue
Unearned revenue includes amounts billed under private contracts to Orbital ATK for launch support services that were not earned until July 2017.

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

Operating revenue and expenses generally represent the launch fees and launch support revenue received under private contracts and the cost of the overall administration of the Authority and the depreciation of its capital assets. Non-operating revenue and expenses generally relate to funds received from private, state and federal cooperative agreements associated with the development of space launch and UAS capabilities.

Restricted net position
During 2016, the Authority received $5.8 million of appropriations from the Commonwealth of Virginia restricted for UAS runway. As of June 30, 2017, $463,727 was spent on business development and operational start-up activities and $4,865,109 was invested in construction-in-progress. As the UAS runway project was ongoing at year-end, the $471,164 of unexpended funds are considered restricted at June 30, 2017.

Subsequent events
In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 15, 2017, the date the financial statements were available to be issued.

3. Capital Assets

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

	Balance July 1, 2016	Acquired Increased	Disposals (Decreased)	Balance June 30, 2017
Nondepreciable capital assets:				
Construction-in-progress	$ 2,660,993	4,698,427	(2,002,685)	**$5,356,735**
Depreciable capital assets:				
Launch pad facilities	$120,319,443	$ 2,595,344	$ -	$**122,914,786**
Machinery and equipment	1,841,620	151,693	(16,258)	**1,977,055**
Land improvements	175,000	-	-	**175,000**
Computer equipment	139,641	25,000	-	**164,641**
Office furniture	23,666	8,662	(779)	**31,550**
Total depreciable assets	122,499,370	2,780,699	(17,037)	**125,263,032**
Accumulated depreciation:				
Launch pad facilities	13,766,637	4,769,542	-	**18,536,179**
Machinery and equipment	489,127	182,770	(13,006)	**658,891**
Land improvements	156,105	3,334	-	**159,439**
Computer equipment	82,290	31,953	-	**114,243**
Office furniture	15,855	2,359	(779)	**17,435**
Total depreciation	14,510,014	4,989,958	(13,785)	**19,486,187**
Capital assets - net	$110,650,349	$ 2,489,168	$ (2,005,937)	**$111,133,580**

Capital assets are generally defined by the Authority as assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Property, plant, and equipment of the Authority are stated at cost and at the time of acquisition are set up in a comprehensive fixed asset system. Depreciation of the cost of property, plant, and equipment is provided on a straight line basis over their estimated useful lives as follows:

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

4. Due To/From Old Dominion University Research Foundation

As discussed at Note 2, the Research Foundation serves as the Authority's fiscal agent and holds the Authority's cash in a commingled account with Research Foundation cash. The Authority has advanced funds to the Research Foundation of $3,155,443 as of June 30, 2017. 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 $82,043 for its services as fiscal agent in 2017, 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 2017 were $539,213, of which $522,694 is included in administration operating expense and $16,519 is included in nonoperating expenses related to nonoperating contracts on the statement of revenue, expenses and changes in net position.

6. Commitments

At June 30, 2017, the Authority occupied office space and warehouse space and leased office equipment under various lease agreements with initial periods ranging from one to six years through fiscal year 2021.

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

Year Ending June 30,	
2018	$ 364,830
2019	269,411
2020	1,844
2021	635
	$ 636,720

Total rent expense for 2017 was $519,615 and is included in administration expense on the statement of revenue, expenses and changes in net position.

At June 30, 2017, the Authority has contractual commitments of approximately $10.5 million for work remaining to be performed under outstanding contracts, approximately $5.5 million of which will be reimbursable under separate private and federal contract agreements.

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

Compliance Section

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors
Virginia Commercial Space Flight Authority
Norfolk, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2017, 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 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Commercial Space Flight Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Commercial Space Flight Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia Commercial Space Flight Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia Commercial Space Flight Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Newport News, Virginia
September 15, 2017

Other Information

Virginia Commercial Space Flight Authority

Norfolk, Virginia

Authority Officials

Board Members
(through fiscal year ended June 30, 2017)

Aubrey Layne, Chairman

John Broderick	Randall Burdette
Jeff Bingham	J. Jack Kennedy
Varun Nikore	Bittle Porterfield
Linda Thomas-Glover	Kathryn Thornton

Dale Nash, Executive Director