Virginia Commercial Space Flight Authority

Financial Statements

Year Ended June 30, 2018

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, 2018, 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, 2018, 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 24, 2018, 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 24, 2018

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, 2018. 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, 2018. 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.

	2018	2017	Change
Assets:			
Current assets	**$ 25,347,818**	$ 13,517,105	$ 11,830,713
Construction-in-progress	**11,254,481**	5,356,735	5,897,746
Capital assets, net of accumulated depreciation	**106,472,617**	105,776,845	695,772
Total assets	**$143,074,916**	$124,650,685	$ 18,424,231
Liabilities:			
Total current liabilities	**$ 2,946,047**	$ 3,035,143	$ (89,096)
Net Position:			
Invested in capital assets	**$117,727,098**	$111,133,580	$ 6,593,518
Restricted for Mid-Atlantic Regional Spaceport Facilities	**11,734,445**	-	11,734,445
Restricted for Unmanned Aircraft Systems Runway	**1,020**	471,164	(470,144)
Unrestricted	**10,666,306**	10,010,798	655,508
Total net position	**$140,128,869**	$121,615,542	$ 18,513,327

The increase in current assets of $11,830,713 is associated with an increase in Cash of $ 12,184,926, which is primarily related to the appropriation from the Commonwealth of Virginia for construction of additional facilities at the Mid-Atlantic Regional Spaceport, offset by a decrease in Accounts Receivable of $308,920. The remaining variance in current assets, a decrease of $45,292 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 the Funds held by VDOT offset by an increase in other current assets consisting of prepaid insurance costs and other miscellaneous items. The increase in construction-in-progress of $5,897,746 is primarily associated with the construction of the MARS Payload Processing Facility, in the amount of $10,436,772, as discussed further in Note 2 and Significant Events, offset by a decrease of $5,131,636 due to the capitalization of the Unmanned Aircraft Systems (UAS) Airfield during fiscal year 2018. The remaining increase in construction-in-progress is primarily related to capital enhancements to Pad 0B and the addition of a tower at the UAS Airfield. The increase in capital assets of $695,772 is the result of the completion and capitalization of the UAS Airfield noted above and investments in equipment, vehicles and software offset by depreciation expense of $5,430,286.

The decrease in current liabilities of $89,096 is associated with a decrease in Unearned Revenue, related to launch support services, of $1,297,357 offset by an increase in Accounts payable and accrued expenses, primarily related to construction of the Payload Processing Facility, of $1,208,261.

The increase in unrestricted net position is a result of the change in net position for the fiscal year exclusive of funds restricted for the Mid-Atlantic Regional Spaceport Facilities and 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, UAS Airfield activities, 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 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.

	2018	**2017**	**Change**
Total operating revenue	**$ 9,856,515**	$ 8,133,009	$ 1,723,506
Total operating expenses	**27,855,426**	26,359,974	1,495,452
Net operating loss	**(17,998,911)**	(18,226,965)	228,054
Total nonoperating revenue	**36,512,238**	15,924,300	20,587,938
Change in net position	**18,513,327**	(2,302,665)	20,815,992
Total net position, beginning of year	**121,615,542**	123,918,207	(2,302,665)
Total net position, end of year	**$140,128,869**	$121,615,542	$ (18,513,327)

The increase in operating revenue of $1,723,506 is primarily due to the net increase in commercial launch fee and launch support revenue of $1,727,135 related to the Antares OA-8 and OA-9 missions as discussed further in Significant Events. Operating expenses increased $1,495,452 as launch activity expenditures increased due to two launches during the fiscal year as compared to one launch during the prior fiscal year and operational expenses were incurred for the newly operational UAS Airfield as further discussed in Significant Events.

The increase in nonoperating revenue of $20,587,938 is due to the $20,000,000 appropriation from the Commonwealth of Virginia for the construction of additional Mid-Atlantic Regional Spaceport Facilities, an increase in Federal contracts revenue for spaceport capability enhancements offset by a decrease in private agreements related to the repair of Pad 0A.

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, launch support activities and UAS Airfield activities. The primary uses are payments to personnel, including salaries, wages, and fringe benefits, payments to suppliers and subcontractors. Cash flows from noncapital financing activities reflect the nonoperating noncapital sources and uses of cash. The primary source is $15,800,000 from the Commonwealth of Virginia annual appropriation with an additional Commonwealth of Virginia source of $75,617, the balance of appropriated funds transferred to the Authority by VDOT upon completion of the UAS Runway as discussed further in Note 2. 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 $20,000,000 from the Commonwealth of Virginia for construction of Mid-Atlantic Regional Spaceport Facilities with an additional source from Federal contracts for MARS enhancements. The primary uses of cash flows from capital financing activities were for investment in construction in progress and capital assets.

	2018	2017	Change
Cash flows used by operating activities	**$ (12,826,085)**	$ (11,803,086)	$ (1,022,999)
Cash flows used by noncapital financing activities	**16,105,303**	14,620,209	1,485,094
Cash flows provided (used by) capital financing activities	**8,905,708**	(248,268)	9,153,976
Net change in cash	**$ 12,184,926**	$ 2,568,855	$ 9,616,071

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 Significant Events, the MARS Payload Processing Facility is still under construction as of June 30, 2018, 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 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 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.

MARS also operates a newly completed, purpose-built Unmanned Aerial Systems (UAS) Airfield at the north end of Wallops Island and is constructing the MARS Payload Processing Facility (PPF).

Launch Operations

With temperatures in the low to mid 20's, the Antares OA-8 mission successfully launched on the morning of November 12, 2017 from MARS Pad 0A. The launch scrubbed on November 11 due to an unauthorized airplane in the exclusion zone. After recycle, Pad 0A systems provided a near flawless performance for the launch mission. For the OA-8 mission, the enhanced Cygnus spacecraft successfully carried approximately 3,350 kg (7,359 lbs.) of supplies and science experiments to the ISS.

OA-9, the final Antares mission to carry the Orbital ATK name, successfully launched at 4:44 a.m. on May 21, 2018 from Pad 0A. Orbital ATK named the Cygnus spacecraft the S.S. J.R. Thomson in memoriam of the former Orbital Sciences Corporation (OSC) Chief Operating Officer and Vice Chairman of the OSC Board of Directors. Countdown at Pad 0A was completed without pause and the launch carrying supplies and science experiments to the ISS was an unmitigated success.

Under the CRS-1 (Commercial Resupply Services-1) contract with NASA, Northrop Grumman Innovation Systems will deliver approximately 30,000 kilograms of total cargo to the space station. Completion of the OA-9 mission leaves two remaining flights under the current CRS-1 contract for Northrop Grumman Innovation Systems.

In addition to routine maintenance and calibration activities on Pad 0A between launch cycles, Virginia Space completed major launchpad modifications as prescribed by Northrop Grumman Innovation Systems to accommodate new cargo late-load program requirements designated by their CRS-2 contract with NASA.

Virginia Space also continued routine maintenance and preparations for upcoming launches on Pad 0B. Tasks included electrical checkouts, structural retorquing, corrosion control of the gantry structure, and structural inspections of steel structures, as well as mission specific requirements levied by customers.

MARS UAS Airfield

Virginia Space's newest operational facility began operations as a forward operations site for Vanilla Aircraft testing. The MARS UAS Airfield was designated as an Emergency Divert site and was the forward Ground Control Station (GCS) site for more than 97% of the flight duration, as it provided a clear line of sight for command and control of the vehicle during the record -setting flight consisting of over 120 hours of continuous flight at 5,000 feet.

The US Navy performed a yearly trial named Black Dart 18 with two different air vehicles operating from the MARS UAS Airfield. The Aerostar and Outlaw crews brought a total of ten Unmanned Aerial Vehicles (UAVs) which flew a number of sorties launching and recovering from the MARS UAS runway. The teams worked in conjunction with the U.S. Navy Surface Combat Systems Center (SCSC) and ships offshore, providing the USN with data on Group II & III UAS in an operational environment.

UAV flights from the MARS UAS Airfield were also performed to support ThinSat integration flights aboard the Anaconda fixed wing UAV in support of the Virginia Space ThinSat Program.

ThinSats

The Virginia Space ThinSat program is preparing for the inaugural flight aboard the NG-10 Antares mission for up to 60 student pico-satellites. Setting the standard for STEM-related academics in the space industry, the three-phase ThinSat Program includes students ranging from grades 4-12, and institutions of higher learning including technical colleges, junior colleges, universities and military academies. Participants design, build and test standard or custom payload configurations for use with the ThinSat satellite bus for launch and research in Extremely Low Earth Orbit (ELEO).

MARS Payload Processing Facility

The MARS Payload Processing Facility is currently being built and will provide mission processing capabilities for multiple payloads in one facility from arrival to encapsulation. The building customers can perform payload integration, payload fueling, stage integration and use multiple segregated processing spaces. Built to customer's standards, the MARS PPF is designed to separate Launch Vehicle and Space Vehicle operations and personnel. The PPF is scheduled to be operational in Q4 of 2018.

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 2018, VCSFA selected four engineering interns from Virginia, Maryland and Delaware universities, and three technical students from the Eastern Shore Community College (ESCC) for the twelve-week program. The highlight of the interns first day was attending the launch of OA-9. The program provides participants a technical orientation with the spaceport facilities and processes, mentorship by spaceport engineers, on-the-job training, and guidance through detailed capstone projects. These projects are designed to be value-added solutions to ongoing work at the Spaceport. This was the seventh year for the VCSFA internship program.

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. This year, a modified ThinSat program experience incorporating Phase I was added to the camp curriculum and supported by MARS personnel. The campers built a local satellite and conducted test flights on a weather balloon. Serving as a pathfinder activity for the Academy, campers provided positive feedback to help with program expansion in the future.

New Business

Northrop Grumman Corporation announced the acquisition of Orbital ATK on June 6, 2018. OA-9 was the last Antares flight with the designation OA. Future flights will be designated NG, starting with NG-10 in fall of 2018.

A Northrop Grumman Innovation Systems Minotaur 1 launch is scheduled from MARS Pad 0B for late 2018. Additional Pad 0B launches are being discussed for periods throughout 2019.

Virginia Space is one of four finalists in the selection process for building and operating a stateside launchpad for New Zealand-based company Rocket Lab. The impact of additional missions could include increased personnel onsite for 20-30 days around a launch window, possibly longer on the initial launches. Over time, this work force will transition from transient support to full-time, high paying technical positions. This exciting program offers much potential benefit to Virginia Space, the U.S. Government and the Commonwealth of Virginia.

Business development efforts continue for UAS customers with significant interest in unmanned air, land and sea operations from a wide range of commercial and government organizations.

Virginia Space is proposing the design and construction of a multi-purpose port to be located on the north end of Wallops Island within the existing Unmanned Aircraft Systems (UAS) Airfield. The major objective of this project would be to enhance the existing capabilities of the Mid-Atlantic Regional Spaceport.

The construction of the port would provide:

- Workforce development in high-tech/high-paying jobs
- Unique STEM research opportunities for local schools and universities
- Intermodal research opportunities
- Local economic growth
- Removal of hazardous and oversized vehicles from public roadways
- Reduction in landside congestion and air emissions

External Relations

External Relations efforts focused on continued support of business development, guest operations and public affairs for launch events, and legislator education to maintain funding. With extensive outreach and relationship-building during trade shows and symposiums for both launch activity and unmanned systems through increased presence at the 34th Space Symposium, the 20th 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 of Venture class rockets combined with the potential of being chosen as a launch location for an upcoming DARPA Launch Challenge, have resulted in business development meetings and site visits taking place with Rocket Lab, Vector, Firefly, and others with a contractual launch agreement signed with Vector.

Legislative affairs activity at both the state and federal level have resulted in not only maintaining current funding levels with the Commonwealth, but a $20M award from the Commonwealth and additional Department of Defense funds for capital infrastructure improvements at MARS, including security enhancements to Pad 0B and the construction of a secure Payload Processing Facility. With the addition of the MARS PPF, the ability to process and integrate classified payloads has broadened the capabilities at MARS, resulting in increased launch interest by Department of Defense organizations as Virginia continues to play a key role in national security and assured access to space.

CEO and Executive Director Dale Nash continues to lead Virginia Space and provide insight and input into national space policy as a subject matter expert on spaceport operations. Asked to serve on the FAA Office of Commercial Space Transportation Board, he was then elected to serve as Vice Chair of the FAA AST COMSTAC Infrastructure Working Group. In this role, he continues to provide economic, technical and institutional expertise to develop effective regulations for competitive commercial launch operations.

Representing the interests of commercial spaceports in the United States, CEO and Executive Director Dale Nash attended, by invitation, both meetings of the National Space Council with Vice President Mike Pence and NASA Administrator Jim Bridenstine.

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, 2018

ASSETS		
Current assets:		
Cash (Note 2)	$	20,567,296
Accounts receivable		1,240,476
Due from Old Dominion University Research Foundation (Note 4)		3,097,543
Other current assets		442,503
Total current assets		25,347,818
Nondepreciable capital assets:		
Construction-in-progress (Note 3)		11,254,481
Depreciable capital assets, net accumulated depreciation (Note 3):		
Launch pad facilities		122,988,588
UAS Airfield		5,893,540
Machinery and equipment		2,087,798
Land improvements		175,000
Computer equipment		212,614
Office furniture		31,550
		131,389,090
Accumulated depreciation		(24,916,473)
		106,472,617
	$	143,074,916
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$	2,946,047
Net position:		
Net investment in capital assets		117,727,098
Restricted for:		
Mid-Atlantic Regional Spaceport Facilities		11,734,445
Unmanned Aircraft Systems Runway		1,020
Unrestricted		10,666,306
Total net position		140,128,869
	$	143,074,916

See accompanying notes.

Virginia Commercial Space Flight Authority
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2018

Operating revenue:		
Launch support revenue - private	$	6,843,220
Commercial launch fees		3,000,000
Federal UAS Airfield		13,295
Total operating revenue		9,856,515
Operating expenses:		
Subcontract services		12,562,163
Administration		8,935,246
Depreciation		5,430,286
Other		927,731
Total operating expenses		27,855,426
Net operating loss		(17,998,911)
Nonoperating revenue (expenses):		
State appropriation		35,800,000
Federal contracts		1,774,646
Private contracts		733
Expenses related to nonoperating activities		(1,063,141)
Total nonoperating revenue		36,512,238
Change in net position		18,513,327
Net position, beginning of year		121,615,542
Net position, end of year	$	140,128,869

See accompanying notes.

Virginia Commercial Space Flight Authority
Statement of Cash Flows
Year Ended June 30, 2018

Cash flows from operating activities:		
Cash received from customers	$	9,768,214
Cash paid to employees		(7,074,212)
Cash paid to suppliers		(15,520,087)
Net cash used by operating activities		(12,826,085)
Cash flows from noncapital financing activities:		
Cash received from state appropriation		15,875,617
Cash received from private contracts		5,005
Cash paid to employees on nonoperating projects		(825,725)
Cash payments for nonoperating contracts		1,050,406
Net cash provided by noncapital financing activities		16,105,303
Cash flows from capital financing activities:		
Cash received from federal contracts		870,238
Cash received from state appropriation		20,000,000
Investment in construction-in-progress		(11,029,382)
Investment in capital assets		(935,148)
Net cash provided by capital financing activities		8,905,708
Net increase in cash		12,184,926
Cash, beginning of year		8,382,370
Cash, end of year	$	20,567,296
Reconciliation of net operating loss to net cash from operating activities:		
Net operating loss	$	(17,998,911)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation		5,430,286
Changes in assets and liabilities:		
Decrease in accounts receivable		1,209,056
Increase in other current assets		(147,498)
Decrease in accounts payable and accrued expenses		(79,561)
Decrease in unearned revenue		(1,297,357)
Net change in due to/from Old Dominion University Research Foundation		57,900
Net cash used by operating activities	$	(12,826,085)

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 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. 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, 2018, cash balances of $20,567,296 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, 2018, 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 managed the construction of the UAS runway; however, the UAS runway remains a capital asset of the Authority. As of June 30, 2018, $4,924,383 had been expended on the UAS runway project and the runway was completed in fiscal year 2018. The remaining $75,617 was returned to Authority during fiscal year 2018. The runway is included in capital assets on the statement of net position. There are no unexpended appropriated funds held by VDOT as of June 30, 2018.

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, 2018, $874,597 was spent on business development and operational start-up activities and $4,924,383 was invested in the UAS runway, which was placed into service during the fiscal year. At June 30, 2018, $1,020 of unexpended funds are considered restricted.

During the fiscal year-ended June 30, 2018, 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, 2018, $8,265,555 was invested in the Payload Processing Facility. As the Mid-Atlantic Regional Spaceport Facilities project was ongoing at year-end, the $11,734,445 of unexpended funds are considered restricted at June 30, 2018.

Subsequent events
In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 24 2018, 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, 2017	Acquired Increased	Disposals (Decreased)	Balance June 30, 2018
Nondepreciable capital assets:				
Construction-in-progress	$ 5,356,735	11,791,286	(5,893,540)	**$ 11,254,481**
Depreciable capital assets:				
Launch pad facilities	$122,914,786	$ 73,802	$ -	$**122,988,588**
Machinery and equipment	1,977,055	110,743	-	**2,087,798**
UAS Airfield	-	5,893,540	-	**5,893,540**
Land improvements	175,000	-	-	**175,000**
Computer equipment	164,641	47,973	-	**212,614**
Office furniture	31,550	-	-	**31,550**
Total depreciable assets	125,263,032	6,126,058	-	**131,389,090**
Accumulated depreciation:				
Launch pad facilities	18,536,179	5,141,823	-	**23,678,002**
UAS Airfield	-	49,113	-	**49,113**
Machinery and equipment	658,891	192,284	-	**851,175**
Land improvements	159,439	3,333	-	**162,772**
Computer equipment	114,243	38,255	-	**152,498**
Office furniture	17,435	5,478	-	**22,913**
Total depreciation	19,486,187	5,430,286	-	**24,916,473**
Capital assets - net	$111,133,580	$ 12,487,058	$ (5,893,540)	**$117,727,098**

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
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 $3,097,543 as of June 30, 2018. 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 $82,598 for its services as fiscal agent in 2018, 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 2018 were $586,362, of which $521,983 is included in administration operating expense and $64,379 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, 2018, 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,	
2019	$ 312,447
2020	1,844
2021	635
	$ 314,926

Total rent expense for 2018 was $654,256 and is included in administration expense on the statement of revenue, expenses and changes in net position.

At June 30, 2018, the Authority has contractual commitments of approximately $20.3 million for work remaining to be performed under outstanding contracts, approximately $5.3 million of which will be reimbursable under separate private and federal contract agreements, and approximately $11.5 million of which are funded by the $20 million appropriation for additional MARS facilities from 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. 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, 2018, 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 24, 2018.

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 24, 2018

Other Information

Virginia Commercial Space Flight Authority

Norfolk, Virginia

Authority Officials

Board Members
(through fiscal year ended June 30, 2018)

Jeff Bingham, Chairman

John Broderick	Mark Flynn
Marke Gibson	James McArthur, Jr.
Bittle Porterfield	Linda Thomas-Glover
Kathryn Thornton	Shannon Valentine

Dale Nash, CEO and Executive Director