

**VIRGINIA COMMERCIAL SPACE
FLIGHT AUTHORITY**
A Component Unit of the Commonwealth of Virginia

FINANCIAL REPORT

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Virginia Commercial Space Flight Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Virginia Commercial Space Flight Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Commercial Space Flight Authority as of June 30, 2023, and the changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As described in Notes 2 and 10 to the financial statements, in 2023, the Virginia Commercial Space Flight Authority adopted new accounting guidance, GASB Statement No. 96, *Subscription-based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Commercial Space Flight Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Virginia Commercial Space Flight Authority's ability to continue as a going concern for a reasonable period of time.

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

Report on the Audit of the Financial Statements (Continued)

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2023, on our consideration of the Virginia Commercial Space Flight Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Virginia Commercial Space Flight Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Commercial Space Flight Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 13, 2023

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

The management of the Virginia Commercial Space Flight Authority (Authority or VSA), 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, 2023. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

Summary of Organization and Business

The Virginia Commercial Space Flight Authority was established as a political subdivision of the Commonwealth of Virginia, by Chapter 758 of the 1995 Acts of Assembly. It operates as an independent entity in accordance with the provisions of the *Code of Virginia, Title 2.2, Chapter 22, Sections 2.2-2201 et. sequence* as amended. The Authority’s legislated purpose is to promote industrial and economic development and scientific and technological research and development through the development and promotion of the commercial and government aerospace industry. A Board of Directors, composed of 9 members, manages the Authority.

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

The Authority implemented GASB Statement No. 96, *Subscription-based Information Technology Arrangements*, during 2023. This standard requires all material long-term subscription-based information technology arrangements (assets and liabilities) be recorded on the Authority’s statement of net position and amortized and expensed over the term of the arrangement on the Authority’s statement of revenues, expenses, and changes in net position. Please refer to Notes 2 and 10 for additional information.

Overview of Annual Financial Report

Management’s Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements prepared by the Authority. The MD&A represents management’s examination and analysis of the financial performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position, the Statement of Cash Flows and Notes to the Financial Statements. The following analysis discusses elements from these statements, as well as an overview of the Authority’s activities.

Statement of Net Position

The Statement of Net Position presents the Authority’s Assets, Liabilities and Net Position as of the end of the fiscal year. The purpose of this statement is to present readers a fiscal snapshot at June 30, 2023. 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.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Statement of Net Position (Continued)

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Assets:			
Current assets	\$ 56,671,387	\$ 31,078,466	\$ 25,592,921
Construction-in-progress	17,965,311	6,830,169	11,135,142
Land	550,000	550,000	-
Depreciable capital assets, net	132,818,552	140,056,364	(7,237,812)
Other noncurrent assets	<u>868,581</u>	<u>969,348</u>	<u>(100,767)</u>
Total assets	<u>\$208,873,831</u>	<u>\$179,484,347</u>	<u>\$ 29,389,484</u>
Liabilities:			
Current liabilities	\$ 4,336,450	\$ 3,981,208	\$ 355,242
Noncurrent liabilities	<u>1,963,269</u>	<u>1,707,927</u>	<u>255,342</u>
Total liabilities	<u>\$ 6,299,719</u>	<u>\$ 5,689,135</u>	<u>\$ 610,584</u>
Deferred Inflow of Resources:			
Deferred lease receivable	<u>\$ 909,230</u>	<u>\$ 1,030,460</u>	<u>\$ (121,230)</u>
Net Position:			
Net investment in capital assets	\$148,944,792	\$145,457,525	\$ 3,487,267
Restricted for:			
Mid-Atlantic Regional Spaceport Facilities	39,021,598	10,380,681	28,640,917
Accomack County Regional Airport Hangar	907,275	940,225	(32,950)
Unrestricted	<u>12,791,217</u>	<u>15,986,321</u>	<u>(3,195,104)</u>
Total net position	<u>\$201,664,882</u>	<u>\$172,764,752</u>	<u>\$ 28,900,130</u>

The increase in current assets of \$25,592,921 is associated with an increase in cash of \$23,820,387. The Authority received a \$30,000,000 appropriation for the construction of a new launch pad. Design and development of the new pad is complete, but construction will be executed in FY24.

The increase in construction-in-progress of \$11,135,142 is primarily associated with the capital projects associated with the execution of the facility enhancements under the Spaceport Enhancement Program, and site and building design, final environmental testing, master site storm water design, and phase 1 site work for the Assembly, Integration, and Test Facility.

The decrease in capital assets of \$7,237,812 is the result of depreciation and amortization of \$8,273,312 offset by approximately \$215,000 in new capital asset acquisitions, \$621,339 in new lease assets, and \$199,532 in subscription assets capitalized in FY23 as a result of the implementation of GASB 96, *Subscription-based Information Technology Arrangements*.

The decrease in noncurrent assets is the result of the reduction of the lease receivable as revenue is recognized.

The increase in noncurrent liabilities is exclusively related to the implementation of GASB 96, *Subscription-based Information Technology Arrangements*, and the recording of intangible subscription right-to-use liabilities.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Statement of Net Position (Continued)

The increase in unrestricted net position is a result of the change in net position for the fiscal year exclusive of funds restricted for the Mid-Atlantic Regional Spaceport Facilities and the Accomack County Regional Airport Hangar and depreciation charges less further investment in capital assets during the period.

The increase in restricted net position is a result of the \$30,000,000 appropriation for construction of the new launch pad which is included in Mid-Atlantic Regional Spaceport Facilities.

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

Statement of Revenue, Expenses and Changes in Net Position

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

Operating revenue and expenses generally represent the activity associated with rocket launch activities, Unmanned Aerial Systems (UAS) Airfield activities, Payload Processing Facility (PPF) activities, interest received on our bank balance, cost of overall administration of the Authority and depreciation and amortization of its capital assets. Nonoperating revenue and expenses generally relate to funds received from Commonwealth of Virginia appropriations and both federal and commercial agreements associated with the development of space launch, PPF and UAS capabilities at the Mid-Atlantic Regional Spaceport, Wallops Flight Facility located on the Eastern Shore of Virginia.

The following schedule compares the revenue, expenses and net assets for the current and previous fiscal year.

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Total operating revenue	\$ 12,301,028	\$ 11,309,856	\$ 991,172
Total operating expenses	<u>(40,844,027)</u>	<u>(35,057,436)</u>	<u>(5,786,591)</u>
Net operating loss	(28,542,999)	(23,747,580)	(4,795,419)
Total nonoperating revenue	<u>57,443,129</u>	<u>29,294,926</u>	<u>28,148,203</u>
Change in net position	28,900,130	5,547,346	23,352,784
Net position, beginning of year	<u>172,764,752</u>	<u>167,217,406</u>	<u>5,547,346</u>
Total net position, end of year	<u>\$201,664,882</u>	<u>\$172,764,752</u>	<u>\$ 28,900,130</u>

The increase in operating revenue of \$991,172 is primarily due to the increase in launch support revenue - private of approximately \$1,300,000, decrease in commercial launch fees of \$720,000 and an increase in interest of approximately \$565,000. Operating expenses increased \$5,786,891 due to the increase in our labor force associated with specific mission and safety requirements.

The increase in nonoperating revenue of \$28,148,203 is primarily due to the \$30,000,000 appropriation for the construction of a new launch pad.

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

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Statement of Cash Flows

The Statement of Cash Flows provides relevant information that aids in assessment of the Authority’s ability to generate cash to meet present and future obligations and detailed information reflecting the Authority’s sources and uses of cash during the fiscal year. Cash flows from operating activities reflect the uses to support the essential mission and administration of the Authority. The primary sources of operating cash flows are from launch fees, launch support activities, PPF activities and UAS Airfield activities. The primary uses of operating cash flows are payments to personnel, including salaries, wages, and fringe benefits and payments to suppliers and subcontractors. Cash flows from noncapital financing activities reflect the nonoperating noncapital sources and uses of cash. The primary source of noncapital financing activities cash flows is from the Commonwealth of Virginia’s annual appropriation. The primary uses of noncapital financing activities cash flows are to support cash requirements of operations and to support non-capital activities related to Mid-Atlantic Regional Spaceport (MARS) facility enhancements. Cash flows from capital financing activities reflect the nonoperating capital sources and uses of cash. The primary source of capital financing cash flows is from an appropriation from the Commonwealth of Virginia for MARS facilities enhancements. The primary uses of cash flows from capital financing activities were for investment in construction in progress and capital assets.

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Cash flows used by operating activities	\$ (20,199,776)	\$ (16,210,803)	\$ (3,988,973)
Cash flows provided by noncapital financing activities	23,090,809	23,019,575	71,234
Cash flows provided by capital financing activities	<u>20,929,354</u>	<u>1,918,727</u>	<u>19,010,627</u>
Net change in cash	<u>\$ 23,820,387</u>	<u>\$ 8,727,499</u>	<u>\$ 15,092,888</u>

Capital Assets

The Authority’s capital assets consist primarily of Launch Pad 0A, Launch Pad 0B, Launch Pad 0C at the MARS, the Integrated Control Facility, UAS Airfield and the PPF, and related support machinery and equipment.

Significant Events

Introduction

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

Roosevelt “Ted” Mercer Jr., Major General, USAF (ret), is the Chief Executive Officer and Executive Director of VSA. During fiscal year (FY) 2023, Mr. Mercer was appointed to and serves as a member of several government advisory boards, including the FAA’s Commercial Space Transportation Advisory Committee, the U.S. Space Force’s Spaceport Directors’ Council, the National Space Council’s Users Advisory Group, and the Commonwealth of Virginia Governor’s Aerospace Advisory Council.

Sean Mulligan is VSA’s Chief Operating Officer and Deputy Executive Director. Mr. Mulligan was named to the FAA Part 440 Aerospace Rulemaking Committee and serves as member of the Virginia Space Flight Academy Board of Directors.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

Introduction (Continued)

As a result of these appointments, VSA executive leaders can more effectively advocate for a national strategy that recognizes the importance of and establishes stable federal funding for vertical lift spaceports capable of orbital launch, highlighting the vital role of spaceports in securing and maintaining assured access to space for the United States, and promoting spaceports as hubs for STEM education.

Introducing the Virginia Spaceport Authority

To reflect how VCSFA has evolved to the unique position it occupies within the aerospace industry and the role of spaceports in shaping the future, in April 2023 the authority rebranded and changed its dba. name from “Virginia Space” to the “Virginia Spaceport Authority (VSA).”

VSA Facilities

VSA headquarters is located in Norfolk, VA. In August 2022, headquarters staff moved into new office space adjacent to the Virginia Port Authority in the World Trade Center building in downtown Norfolk.

The spaceport consists of the following facilities that are owned and operated by VSA.

MARS has three operational launch pads located within Launch Complex 0: Pad 0A, Pad 0B, and Pad 0C.

Pad 0A, a medium class launch facility, is comprised of a cryogenic liquid fuel facility with an automated commodities system, fortified launch mount, robust electrical and environmental control systems, and a gravity-fed freshwater deluge system. Northrop Grumman is currently the primary customer on Pad 0A, launching its Antares rocket for International Space Station resupply missions.

Pad 0B, a secure small class launch facility, is comprised of a launch stool, moveable service structure, launch equipment vault, lightning protection system, and environmental control system. VSA is planning modifications to Pad 0B to accommodate a new launch customer. Designs are in progress to support liquid fuels systems and enable dual use for launch vehicles with liquid fuel motors and launch vehicles with solid fuel motors.

Pad 0C, also referred to as LC-2, supports smaller liquid vehicles. Like Pad 0A, Pad 0C includes a cryogenic liquid fuel facility with an automated commodities system, robust electrical and environmental control systems, a gravity-fed freshwater deluge system, and a rotating hydraulic launch mount and strong back structure. Rocket Lab uses Pad 0C for its Electron rocket missions.

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

New Facilities in Development

Launch Pad 0D

Development continues of a new multiuser launch pad, Pad 0D, which will include shared systems between multiple pads and providers. The site plan design is complete and requests for proposals for various components have been released. This project is supported by \$30M in funding through the Virginia Department of Transportation’s budget.

Assembly Integration and Test Facility

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

New Facilities in Development (Continued)

Launch Pad 0D (Continued)

VSA has completed the site and building design for the Assembly, Integration, and Test Facility that will be located on VSA's land adjacent to NASA's Wallops Island Flight Facility, for which Rocket Lab will be the first occupant. This project will be supported by a \$15M Major Employment and Investment (MEI) award from the Virginia Economic Development Partnership (VEDP). Final environmental testing has been completed with no observation of concern. Master site storm water design and phase 1 site work, including a temporary structure, have been completed. A temporary structure was completed in FY23 and VSA is working with Accomack County to secure permits and approvals for the first permanent building. The first contracts for site construction have been released and development will continue in FY24.

Launch Team Facility

Originally planned as one facility, to optimize the work locations for launch team staff and associated capabilities, VSA determined that two smaller structures would be more operationally effective using the same budget. One building will be located adjacent to the launch pads. A new land lease with NASA has been completed for that facility. The other building will be located outside the NASA Wallops Island Gate, adjacent to the AIT building on VSA-owned land. Design bid documentation is being developed for release. Construction is expected to start in early calendar year (CY) 2024.

Seaport

VSA continued working toward the development of a multi-purpose seaport adjacent to the MARS UAS Airfield. To satisfy the obligations set forth in the National Environmental Policy Act of 1969, the environmental assessment to study the environmental impacts of the proposed project was awaiting final approval signature at the end of FY23.

Launch and Facility Operations

Launch Pad 0A

On November 7, 2022, at 5:32 a.m. EST, Northrop Grumman's NG-18 Cygnus spacecraft launched aboard the Antares 230+ rocket from MARS Pad 0A. The Cygnus spacecraft, named the S.S. Sally Ride commemorating the first American woman in space, successfully berthed to the International Space Station (ISS) on November 9, 2022, delivering approximately 8,265 pounds of supplies, equipment, and experiments for the astronauts aboard. MARS Pad 0A remained in good condition following the launch with normal and expected wear and tear.

In August 2022, Northrop Grumman announced that it has teamed with Firefly Aerospace to develop the Antares model 330 rocket and a new medium launch vehicle (MLV). Northrop Grumman plans to launch both Antares 330 and MLV rockets from MARS beginning in CY25.

VSA staff prepared Pad 0A for the last launch of the Antares model 230+ rocket while concurrently working on upgrades to the launch pad to accommodate Northrop Grumman's two new rocket types.

Launch Pad 0B

MARS Launch Pad 0B was offline for operations in FY23 and remained in maintenance mode with no operations conducted other than the standard preventative maintenance tasks and tower roll operations. Planning for modifications necessary to bring liquid fuels to Pad 0B is in development.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

Launch and Facility Operations (Continued)

Launch Pad 0C

The historic first launch from U.S. soil of Rocket Lab’s Electron rocket was successfully completed at 6:00 p.m. EST on January 24, 2023, from MARS Pad 0C. The “Virginia is for Launch Lovers” mission was the first use of NASA’s Autonomous Flight Termination Unit (NAFTU) and the first autonomous flight launched from MARS. The mission deployed three Virginia-manufactured satellites for Hawkeye 360, a Virginia-based radio frequency geospatial analytics company, to a 550 km low Earth orbit.

Launch damage to Pad 0C was minimal as expected and in 45 days VSA staff successfully prepared the pad to be ready for another launch, demonstrating VSA’s ability to support an aggressive launch cadence.

On March 16, 2023, at 6:38 p.m. EDT, the “Stronger Together” mission, Rocket Lab’s second Electron rocket launch from MARS, was successfully launched from Pad 0C. “Stronger Together” was a dedicated mission for Capella Space, a leading U.S. satellite manufacturer and Earth observation company, delivering to orbit two Synthetic Aperture Radar satellites.

The third Electron launch from MARS, the “Scout’s Arrow” mission, launched at 9:24 p.m. EDT on June 18, 2023. This was the first launch of Rocket Lab’s suborbital testbed launch vehicle called HASTE (Hypersonic Accelerator Suborbital Test Electron) for its customer Leidos.

The payloads for all three Electron launches were processed and integrated in the ICF. Preparations for future Rocket Lab launches are underway.

Payload Processing Facility

The Payload Processing Facility (PPF) is ready to support national security missions and other customer needs. It is in the process of being upgraded to provide additional operational flexibility. The work will continue into FY24.

MARS Unmanned Aircraft System (UAS) Airfield Operations

VSA hosted three UAS airfield customers in FY23: NASA Langley Research Center, Naval Surface Warfare’s Dahlgren Test and Evaluation Division, and U.S. Special Operations Command (SOCOM).

Spaceport staff supported around 30 sorties for the three customers, who flew a six different aircraft and collected data supporting the UAS programs.

SOCOM has selected the MARS UAS airfield as its home for future East Coast-based missions.

Several additional government and commercial customers are scheduled for UAS airfield operations in the coming months.

There were no capital upgrades made to the airfield in FY23.

Multi-Agency Physical and Cyber Security Threat Assessment

VSA completed improvements to physical and cyber security processes and capabilities based on a limited threat assessment conducted by the FAA in collaboration with other federal intelligence agencies.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

External Relations

VSA rolled out its well-received rebranding campaign at the annual Space Symposium conference and exhibition in April 2023. Space Symposium was one of several industry events VSA representatives attended during the fiscal year to increase awareness of not only MARS but also its importance for assured access to space for the nation. In addition to the rebranding, VSA also deployed a robust public awareness campaign to inform and educate stakeholders about the spaceport's capabilities, educational opportunities offered by VSA, and the Authority's economic development efforts. The continuing campaign includes a radio partnership encompassing VSA staff interviews and announcements that are broadcast across the Delmarva peninsula, informational packets available at rest stops across Virginia, and a partnership with the Chincoteague Chamber of Commerce. VSA stepped up its digital media activity in FY23, resulting in a 234% increase in Twitter and Instagram followers and a 40% increase in Facebook followers.

Tours of the spaceport is one of the most effective stakeholder engagement tools. In FY23, VSA hosted 30 tours for students and teachers; space industry stakeholders; and federal, state, and local government elected officials and staffers.

Education and STEM Activities

VSA continues to build enduring partnerships to establish robust student and workforce pipelines for the aerospace industry on the Eastern Shore of Virginia and developing MARS as an educational hub for the Commonwealth. The Director of Educational Talent has increased direct student and educator outreach; established year-round internship, mentorship, and apprenticeship programs; and supported multiple student and educator field trips to the spaceport.

In August 2022, nine university students completed their internships with a capstone presentation highlighting their hands-on experiences supporting impactful VSA projects. The internship program continued in FY23 for its eleventh year. A formal recruitment process resulted in twelve interns from various universities, primarily in Virginia, working both at the spaceport and the Norfolk headquarters office. Three students participated in the first VSA internships during the school year and nine students participated in the summer internship program. In addition, VSA signed a memorandum of understanding with Eastern Shore Community College (ESCC) to formally document an internship program and enter into an agreement to assist ESCC with developing an aerospace engineering program.

VSA has ongoing and continually evolving relationships with several universities and educational organizations, including Virginia Tech, the University of Virginia, Virginia Commonwealth University, Norfolk State University, Virginia Space Coast Scholars, Virginia Space Flight Academy, and For Kids. The education department connected with student rocketry teams from several universities to discuss how VSA can support them and allow them to utilize MARS to increase their knowledge for aerospace-related student-led missions.

Outreach to K-12 schools has also increased. As a result, VSA participated in several professional development training sessions to promote the spaceport directly to teachers and educational leaders. VSA was also invited to the first Lab Schools Summit, connecting with the leaders of several lab schools that will soon be established in the Commonwealth.

Government Relations

Legislative affairs activity on the local, state, and federal level encompassed in-person and virtual briefings on MARS infrastructure, support of launch viewings, and efforts to promote supportive policies across federal departments and maintain and grow federal funding streams.

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VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

Government Relations (Continued)

Throughout the fiscal year, VSA engaged with the Accomack County Board of Supervisor and other county officials, with members of the Commonwealth of Virginia General Assembly, and with the Virginia Governor and other members of the Commonwealth executive branch to promote and develop launch, education, and economic development activities.

VSA receives 1% of the Commonwealth's Transportation Trust Fund.

VSA engaged with members of Congress, their staff, and federal agency representatives (FAA, NASA, Department of Defense, among others) independently and through coalition memberships with the Space Transportation Association. VSA worked closely with NASA WFF, Northrop Grumman, and Rocket Lab USA to facilitate launch viewing visits to the spaceport, including the inaugural U.S. launch of Rocket Lab's Electron launch vehicle.

In March 2023, VSA received a \$9.5 million award from the U.S. Space Force Spaceport Enhancements Program (SEP) and began executing the associated projects. This funding was made available via the federal FY22 defense appropriations act.

As a result of congressional engagement, VSA was successful in securing \$17 million for the SEP in the federal FY23 defense appropriations act. As in previous years, VSA anticipates receiving half the overall amount, which will be used to fund security and infrastructure improvements to various VSA operational assets. VSA also supported a provision in the FY23 enacted appropriations act requiring the U.S. Department of Transportation (DOT) to submit a report to the Congress on the effectiveness/suitability of existing spaceport infrastructure grant programs at DOT.

VSA successfully worked with the House Armed Services Committee for inclusion in the enacted FY23 National Defense Authorization Act (NDAA) a provision requiring the Secretary of Defense to report to the Congress on the national spaceport ecosystem as it exists to support national security launches. More recently, VSA has been developing and leading engagement regarding the inclusion of spaceports as Department of Homeland Security-designated critical infrastructure. VSA has also actively interfaced with other authorizing Committees, including the House Science Committee, House Transportation and Infrastructure Committee, and Senate Commerce Committee.

Economic Impact

One prong of VSA's mission, as outlined in the legislation that established the Authority, is to promote economic development. VSA engaged Old Dominion University's Dragas Center for Economic Analysis and Policy to assess the economic impact of the Wallops Island Aerospace Cluster. The cluster includes NASA WFF, its tenants, aerospace industry companies, and VSA. As documented in the June 30, 2023, report that covered the period 2018 through 2022, the researchers found that:

- The economic impact of the Wallops cluster remained resilient despite a 60% decline in federal nonpayroll spending and the shock of the COVID-19 pandemic.
- The Wallops Island Aerospace Cluster increased annual average employment in Virginia between 3,336 and 4,597 jobs.
- Jobs in the Wallops cluster paid more than 2 times the average of jobs in surrounding communities.
- The Wallops Island Aerospace Cluster had a direct positive impact on the Eastern Shore of Virginia of \$1.5 billion in 2023 dollars.

Specific to VSA, researchers found that for every \$1 appropriated to VSA by the Commonwealth of Virginia, annual average real industry output in Virginia increased by \$2.9.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED)
June 30, 2023

Significant Events (Continued)

Contacting the Authority's Financial Management

This financial report is designed to provide our users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the Virginia Commercial Space Flight Authority, 4111 Monarch Way, Suite 303, Norfolk, Virginia 23508-2559.

BASIC FINANCIAL STATEMENTS

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2023

ASSETS

CURRENT ASSETS

Cash	\$ 54,437,273
Accounts receivable	1,923,628
Current portion of lease receivable (Note 3)	100,767
Other current assets, prepaid expenses	209,719

Total current assets	56,671,387
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NONDEPRECIABLE CAPITAL ASSETS (Note 4)

Land	550,000
Construction-in-progress	17,965,311

Total nondepreciable capital assets	18,515,311
-------------------------------------	------------

DEPRECIABLE CAPITAL ASSETS, NET ACCUMULATED

DEPRECIATION AND AMORTIZATION (Note 4)

Launch pad facilities	140,713,614
UAS Airfield	5,984,532
Machinery and equipment	3,398,701
Building	38,884,331
Computer equipment	442,763
Land improvements	175,000
Software	158,945
Office furniture	32,722
Subscription assets (Note 10)	199,532
Lease assets (Note 6)	2,865,230

Total depreciable capital assets	192,855,370
----------------------------------	-------------

Accumulated depreciation and amortization	(60,036,818)
---	--------------

Total depreciable capital assets, net	132,818,552
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LONG TERM ASSETS

Lease receivable, less current portion (Note 3)	868,581
---	---------

Total long term assets	\$ 208,873,831
------------------------	----------------

(Continued)

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2023

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 3,898,848
Unearned revenue	11,800
Current portion of intangible right-to-use subscription liability (Note 10)	36,358
Current portion of intangible right-to-use lease liabilities (Note 6)	389,444

4,336,450

LONG TERM LIABILITIES

Intangible right-to-use subscription liability (Note 10)	120,013
Intangible right-to-use lease liabilities (Note 6)	1,843,256

6,299,719

DEFERRED INFLOW OF RESOURCES

Deferred lease receivable (Note 3)	909,230
------------------------------------	---------

NET POSITION

Net investment in capital assets	148,944,792
Restricted for:	
Mid-Atlantic Regional Spaceport Facilities	39,021,598
Accomack County Regional Airport Hanger	907,275
Unrestricted	12,791,217

201,664,882

\$ 208,873,831

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2023

OPERATING REVENUES	
Launch support revenue - private	\$ 9,081,300
Commercial launch fees	2,400,000
Other	819,728
	<hr/>
Total operating revenue	12,301,028
	<hr/>
OPERATING EXPENSES	
Subcontract services	9,944,540
Administration	16,886,924
Depreciation and amortization	8,273,312
Other	5,739,251
	<hr/>
Total operating expenses	40,844,027
	<hr/>
Net operating loss	(28,542,999)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State appropriation	54,202,971
Federal contracts	2,867,750
Private contracts	1,245,000
Expenses related to nonoperating activities	(872,592)
	<hr/>
Total nonoperating revenues	57,443,129
	<hr/>
Change in net position	28,900,130
	<hr/>
NET POSITION	
Beginning of year	172,764,752
	<hr/>
End of year	\$ 201,664,882
	<hr/> <hr/>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

OPERATING ACTIVITIES

Cash received from customers	\$ 12,473,936
Cash paid to employees	(14,181,704)
Cash paid to suppliers	(18,492,008)
	<hr/>
Net cash used by operating activities	(20,199,776)

NONCAPITAL FINANCING ACTIVITIES

Cash received from state appropriation	24,202,971
Cash paid to employees on nonoperating projects	(752,129)
Cash received for nonoperating contracts	136,875
	<hr/>
Net cash provided by noncapital financing activities	23,587,717

CAPITAL FINANCING ACTIVITIES

Cash received from state appropriation	30,000,000
Cash received from federal contracts	1,034,128
Cash received from private contracts	1,245,000
Cash payments for subscription liabilities	(43,161)
Cash payments for lease liabilities	(357,647)
Interest paid	(86,100)
Investment in construction-in-progress	(11,135,142)
Investment in capital assets, including leased assets	(224,632)
	<hr/>
Net cash provided by capital financing activities	20,432,446

Net increase in cash 23,820,387

CASH

Beginning of year	<hr/>
	30,616,886
End of year	<hr/> <hr/>
	\$ 54,437,273

(Continued)

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

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

Net operating loss	\$ (28,542,999)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation and amortization	8,273,312
Changes in current assets and liabilities:	
Decrease in accounts receivable	172,908
Decrease in other current assets, prepaid expenses	(37,925)
Decrease in accounts payable and accrued expenses	<u>(65,072)</u>
 Net cash used by operating activities	 <u><u>\$ (20,199,776)</u></u>

**SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition of subscriptions	
Asset	\$ 199,532
Liability	<u>(199,532)</u>
 Cash paid to acquire subscriptions	 <u><u>\$ -</u></u>
 Acquisition of lease	
Asset	\$ 621,339
Liability	<u>(611,339)</u>
 Cash paid to acquire lease	 <u><u>\$ 10,000</u></u>

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

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

1. Organization and Nature of Activities

Virginia Commercial Space Flight Authority (Authority) was established as a political subdivision of the Commonwealth of Virginia, by Chapter 758 of the 1995 Acts of Assembly. It operates as an independent entity in accordance with the provisions of the *Code of Virginia, Title 2.2, Chapter 22, Sections 2.2-2201 et. sequence* as amended. The Authority's legislated purpose is to promote industrial and economic development and scientific and technological research and development through the development and promotion of the commercial and government aerospace industry. A Board of Directors, composed of 9 members, manages the Authority.

The Authority is considered a component unit of the Commonwealth of Virginia (Commonwealth). The Governor appoints the 9-member board, and there is a potential financial benefit/burden to the primary government. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

2. Summary of Significant Accounting Policies

Financial reporting entity

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

Basis of accounting

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

Credit risk

At June 30, 2023, the entire bank deposit balance of \$54,454,826 was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Lessee

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

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

2. Summary of Significant Accounting Policies (Continued)

Lessee (Continued)

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs, if any. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

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

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

Lessor

The Authority is a lessor for a noncancellable lease of business and storage space. The Authority recognizes a lease receivable and a deferred inflow of resources in the statement of net position related to these agreements. At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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

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

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

2. Summary of Significant Accounting Policies (Continued)

Concentrations

The primary source of operating revenue is from launch fees and operations support with two commercial customers that have contracted with the Authority. These two customers represent 99% of the total launch support revenue - private and commercial launch fees on the statement of revenue, expenses, and changes in net position.

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

Accounts receivable and allowance for doubtful accounts

Receivables include amounts due from contracts and grants for reimbursable expenditures in excess of receipts at year-end. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenue net of uncollectibles, if any. Allowances are reported when accounts are proven to be uncollectible. At June 30, 2023, management believes all accounts receivable are fully collectible; therefore, there was no allowance for doubtful accounts.

Capital assets

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

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

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

Unearned revenue

Unearned revenue primarily includes contract funds received but not earned due to contract milestones that will be met in fiscal year 2024.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

2. Summary of Significant Accounting Policies (Continued)

Classification of revenue and expenses

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

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

Restricted net position

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

During the year ended June 30, 2023, the Authority received \$30,000,000 of appropriations from the Commonwealth of Virginia restricted for improvements to the Mid-Atlantic Regional Spaceport (MARS) Facilities. In addition, restricted funds continue to be carried over from previous years, for improvement of the waterfront facilities and UAS facilities, construction of the MARS Facilities, and the Accomack Regional Airport hangar. At June 30, 2023, \$3,571,127 was invested in these projects. As the projects were ongoing at year-end, the \$39,928,873 of unexpended funds are considered restricted at June 30, 2023.

Adoption of new accounting standard

On July 1, 2022, the Authority adopted GASB Statement No. 96, *Subscription-based Information Technology Arrangements*. The adoption of GASB 96 resulted in the recognition of right-of-use subscription assets and subscription liabilities at July 1, 2022.

3. Lease Receivable / Deferred Inflow of Resources

The Authority is a lessor for a noncancellable lease of business and storage space with Rocket Lab USA, Inc. (Rocket Lab). The Authority has a lease receivable with an outstanding balance of \$969,348 of which \$100,767 is current, and deferred inflow of resources of \$909,230, as of June 30, 2023. During 2023, the Authority recognized lease revenue of \$121,230 and interest revenue of \$32,918, using a discount rate of 3.25%, both of which are included in other operating revenues on the statement of revenue, expenses and changes in net position.

Future maturities of the lease receivable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 100,767	30,030	130,797
2025	108,737	26,638	135,375
2026	117,133	22,980	140,113
2027	125,973	19,042	145,015
2028	135,280	14,812	150,092
2029-2031	<u>381,458</u>	<u>16,444</u>	<u>397,901</u>
	<u>\$ 969,348</u>	<u>\$ 129,946</u>	<u>\$ 1,099,294</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

4. Capital Assets

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

	<u>Balance</u> <u>July 1, 2022</u>	<u>Acquired</u> <u>(Increased)</u>	<u>Disposals</u> <u>(Decreased)</u>	<u>Balance</u> <u>June 30, 2023</u>
Nondepreciable capital assets:				
Land	\$ 550,000	\$ -	\$ -	\$ 550,000
Construction-in-progress	<u>6,830,169</u>	<u>11,135,142</u>	<u>-</u>	<u>17,965,311</u>
Total nondepreciable capital assets	<u>7,380,169</u>	<u>11,135,142</u>	<u>-</u>	<u>18,515,311</u>
Depreciable capital assets:				
Launch pad facilities	140,713,614	-	-	140,713,614
UAS Airfield	5,984,532	-	-	5,984,532
Machinery and equipment	3,391,372	7,329	-	3,398,701
Building	38,778,848	105,483	-	38,884,331
Computer equipment	340,943	101,820	-	442,763
Land improvements	175,000	-	-	175,000
Software	158,945	-	-	158,945
Office furniture	<u>32,722</u>	<u>-</u>	<u>-</u>	<u>32,722</u>
Total depreciable capital assets	<u>189,575,976</u>	<u>214,632</u>	<u>-</u>	<u>189,790,608</u>
Accumulated depreciation:				
Launch pad facilities	45,618,436	6,013,973	-	51,632,409
UAS Airfield	1,242,388	299,504	-	1,541,892
Machinery and equipment	1,890,782	393,542	-	2,284,324
Building	2,089,807	1,075,195	-	3,165,002
Computer equipment	253,572	29,593	-	283,165
Land improvements	175,000	-	-	175,000
Software	158,945	-	-	158,945
Office furniture	<u>27,276</u>	<u>1,334</u>	<u>-</u>	<u>28,610</u>
Total accumulated depreciation	<u>51,456,206</u>	<u>7,813,141</u>	<u>-</u>	<u>59,269,347</u>
Total depreciable capital assets, net	<u>138,119,770</u>	<u>(7,598,509)</u>	<u>-</u>	<u>130,521,261</u>
Amortizable lease assets:				
Office and warehouse space	<u>2,243,891</u>	<u>621,339</u>	<u>-</u>	<u>2,865,230</u>
Accumulated amortization for:				
Office and warehouse space	<u>307,297</u>	<u>420,268</u>	<u>-</u>	<u>727,565</u>
Total amortizable lease assets, net	<u>1,936,594</u>	<u>201,071</u>	<u>-</u>	<u>2,137,665</u>
Amortizable subscription assets:				
Software	<u>-</u>	<u>199,532</u>	<u>-</u>	<u>199,532</u>
Accumulated amortization for:				
Software	<u>-</u>	<u>39,906</u>	<u>-</u>	<u>39,906</u>
Total amortizable subscription assets, net	<u>-</u>	<u>159,626</u>	<u>-</u>	<u>159,626</u>
Capital assets, net	<u>\$ 147,436,533</u>	<u>\$ 3,897,330</u>	<u>\$ -</u>	<u>\$151,333,863</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 2023 were \$1,111,042, which is included in administration operating expense on the statement of revenue, expenses and changes in net position.

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

The Authority is a lessee for noncancellable leases of office space, warehouse space and equipment, for which the Authority has recognized lease assets and intangible right-to-use lease liabilities discounted between 3.25% and 4.75%. During 2023, the Authority recognized lease amortization and interest expense of \$420,268 and \$86,621, respectively, which is included in the statement of revenues, expenses, and changes in net position in operating expenses. The following is a summary of changes in intangible right-to-use lease liabilities reported in the statement of net position for the fiscal year ended June 30, 2023:

Intangible right-to-use lease liabilities - July 1, 2022	\$ 1,979,008
Additions	611,339
Subtractions	<u>(357,647)</u>
Balance - June 30, 2023	2,232,700
Less - current portion of intangible right-to-use lease liabilities	<u>(389,444)</u>
 Long-term intangible right-to-use lease liabilities - June 30, 2023	 <u>\$ 1,843,256</u>

Future maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 389,444	74,070	463,514
2025	414,870	59,455	474,325
2026	441,529	43,870	485,399
2027	356,510	28,941	385,451
2028	308,410	15,739	324,149
2029-2033	217,485	21,089	238,574
2034-2038	8,301	16,699	25,000
2039-2043	9,764	15,236	25,000
2044-2048	11,484	13,516	25,000
2049-2053	13,508	11,492	25,000
2054-2058	15,888	9,112	25,000
2059-2063	18,687	6,313	25,000
2064-2068	21,979	3,021	25,000
2069	<u>4,841</u>	<u>159</u>	<u>5,000</u>
	<u>\$ 2,232,700</u>	<u>\$ 318,712</u>	<u>\$ 2,551,412</u>

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

7. Compensated Absences

Authority employees are granted paid time off in varying amounts based on length of service. They may accumulate, subject to certain limitations, unused paid time off and upon separation may be compensated for certain amounts at their then current rates of pay. The following is a summary of changes in compensated absences reported in the statement of net position for the fiscal year ended June 30, 2023:

Compensated absences - July 1, 2022	\$ 1,136,831
Additions	1,127,620
Subtractions	<u>(794,088)</u>
Balance - June 30, 2023	<u>\$ 1,470,363</u>

All compensated absences are current at June 30, 2023 and are included in accounts payable and accrued expenses on the statement of net position.

8. Commitments

As discussed at Note 6, the Authority is a party to several leases for office space, warehouse space and equipment. Rent expense was \$305,293 in 2023 and is included in administration operating expenses on the statement of revenue, expenses and changes in net position. Future payments under these leases is disclosed in Note 6.

At June 30, 2023, the Authority has contractual commitments of approximately \$6.9 million for work remaining to be performed under outstanding contracts, approximately \$4.5 million of which will be reimbursable under separate private and federal contract agreements, and approximately \$157,000 of which are funded by the Commonwealth of Virginia.

9. 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 Chubb/Ace Property and Casualty Insurance Company of Philadelphia, PA with an insurance limit of \$25,000,000.

The Authority has Public Entity Liability/Employment Practice Liability Insurance through Chubb/Ace Property and Casualty Insurance Company in the amount of \$1,000,000. The policy provides coverage for a loss caused by a wrongful act committed while conducting duties by or on behalf of a public entity and covers the Authority against claims by workers that their legal rights as employees of the company have been violated.

The Authority has Fiduciary Liability insurance provided through Chubb/Federal Insurance Company with limits of \$1,000,000 that protects the Authority from claims of mismanagement and the legal liability related to serving as a fiduciary.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

The Authority has Cyber Liability insurance with Coalition Insurance with limits of \$1,000,000 that covers liability for data breaches involving sensitive customer information.

The Authority has property insurance through Travelers Insurance Company with coverage in the amount of \$3,412,500 for the Norfolk office, the Wallops Island location, and the Addison Warehouse. The coverage amount at the Integration Control Facility is \$4,410,000. The policy covers the Authority business personal property from perils such as fire, flood, earthquake, windstorms, and equipment breakdown.

The Authority also has property insurance through Lexington Insurance Company with coverage in the amount of \$28,000,000 for the Payload Processing Facility and \$1,000,000 for the UAS Airfield Hangar. The policy covers the Authority business personal property from perils such as fire, flood, earthquake, windstorms, and equipment breakdown.

The Authority maintains its own insurance coverage for health and workers compensation; there is no self-insurance.

Orbital Sciences Corporation (Orbital) has also agreed to maintain insurance in amounts set forth in the Federal Aviation Administration (FAA) launch license to cover loss of or damage to U.S. Government and Commonwealth of Virginia facilities or property (including Authority facilities) that arises from licensed launch activities. This insurance includes \$50,000,000 minimum coverage for loss or damage arising from licensed launch activities as defined under applicable FAA regulations. The Authority is listed as an additional insured party on such insurance. In addition, Orbital, at no cost to the Authority, has obtained insurance with \$100,000,000 coverage for damage to Commonwealth of Virginia facilities and property (including Authority facilities), which loss or damage arises directly from Orbital's performance under the Launch Site Access and Operations Support Agreement, but does not arise from licensed launch activities as defined under applicable FAA regulations. \$25,000,000 of the \$100,000,000 coverage is dedicated to special hazards coverage, including flooding, named storms and earthquakes. The non-launch property insurance extends through December 31, 2024, on the condition that Orbital continues to launch the Antares vehicle from the Wallops Flight Facility through that date. The Authority is also listed as an additional insured party on such insurance.

Beginning in fiscal year 2022, Rocket Lab USA, Inc. (Rocket Lab) has also agreed to maintain insurance in amounts set forth in the Federal Aviation Administration (FAA) launch license to cover loss of or damage to U.S. Government and Commonwealth of Virginia facilities or property (including Authority facilities) that arises from licensed launch activities. The amount of insurance obtained by Rocket Lab is no less than the FAA-established maximum probable loss amount set forth in the FAA Launch License. In addition, Rocket Lab, at no cost to the Authority, has obtained commercial general liability insurance in a minimum amount of \$10,000,000 coverage for activities other than licensed launch activities, with the Authority named as an additional insured.

(Continued)

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

10. Subscription-Based Information Technology Arrangements

The Authority has a subscription-based information technology arrangement for communication software. During 2023, the Authority adopted GASB 96, *Subscription-based Information Technology Arrangements*, and recognized a subscription asset and intangible right-to-use subscription liability, discounted at 4.75%, in the statement of net position and also recognized subscription amortization and interest expense of \$39,906 and \$7,735, respectively, which are included in the statement of revenues, expenses and changes in net position in operating expenses, for the fiscal year ended June 30, 2023:

Intangible right-to-use subscription liability - July, 1, 2022	\$ -
Additions	199,532
Subtractions	<u>(43,161)</u>
Balance - June 30, 2023	156,371
Less - current portion of intangible right-to-use subscription liability	<u>(36,358)</u>
Long-term intangible right-to-use subscription liability - June 30, 2023	<u>\$ 120,013</u>

Future maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 36,358	7,592	\$ 43,950
2025	38,124	5,826	43,950
2026	39,974	3,976	43,950
2027	<u>41,915</u>	<u>2,035</u>	<u>43,950</u>
	<u>\$ 156,371</u>	<u>\$ 19,429</u>	<u>\$ 175,800</u>

COMPLIANCE SECTION

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2023, 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 13, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virginia Commercial Space Flight Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described as VA-2023-001 in the accompanying schedule of findings and recommendations.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit as described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 13, 2023

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2023

As more fully described in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Conflicts of Interest Act

Uniform Disposition of Unclaimed Property Act

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2023

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. However, one instance of noncompliance with the Virginia State Code was noted and reported.
3. No instances of noncompliance material to the financial statements were disclosed.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

VA-2023-001: Conflicts of Interest

Condition:

Ten out of ten conflict of interest forms were not filed by the February 1, 2023, deadline.

Criteria:

All conflict-of-interest forms should be completed and filed by the February 1, 2023, deadline.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

C. STATUS OF PRIOR YEAR FINDINGS – COMMONWEALTH OF VIRGINIA

VA-2022-001: Conflicts of Interest

Condition:

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

Criteria:

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

Recommendation:

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

Current Status:

See current year finding 2023-001.

OTHER INFORMATION

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

Norfolk, Virginia

AUTHORITY OFFICIALS

BOARD MEMBERS

(through fiscal year ended June 30, 2023)

Jeff Bingham, Chairman

Edward Bolton, Jr.

Morris Foster

James McArthur, Jr.

Kathryn Thornton

Robert Kehler

Greg Campbell

Linda Thomas-Glover

The Honorable W. Sheppard Miller III

Roosevelt Mercer, Jr., CEO and Executive Director

**Report to the
Board of Directors**

**VIRGINIA COMMERCIAL SPACE
FLIGHT AUTHORITY**

June 30, 2023

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REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of business-type activities of Virginia Commercial Space Flight Authority (the “Authority”) for the year ended June 30, 2023, and have issued our report thereon dated September 13, 2023. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 4, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. As described in Notes 2 and 10 of the financial statements, new accounting policies were adopted during 2023 related to the Authority’s implementation of GASB Statement No. 96, *Subscription-Based Information Technology Agreements*. The application of existing policies was not changed during 2023. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the depreciable lives and estimated residual value, if any, of capital assets is based on management’s expertise and historical knowledge of the useful lives of similar assets in the industry.

Management’s estimate of the measurement of lease assets and liabilities is based on the lease terms and discount rates as described in Notes 3 and 6.

Management’s estimate of the initial measurement of subscription-based information technology agreement liabilities is based on the terms and discount rates as described in Notes 2 and 10.

We evaluated the methods and assumptions, and data used to develop these estimates in determining that each is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements is related to capital assets (Note 4), leases (Notes 3 and 6), and the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Agreements* in 2023 (Notes 2 and 10).

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Appendix B lists our audit adjustments and includes the entries associated with the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Agreements* and those prepared by management and posted during audit procedures.

There were no unrecorded misstatements noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter included in Appendix A.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express any opinion or provide any assurance on the RSI.

We were not engaged to report on the listing of Authority officials, which accompany the financial statements but are not RSI. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Virginia Commercial Space Flight Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 13, 2023

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

June 30, 2023

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

The GASB issued *Statement No. 99, Omnibus 2022* in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The GASB issued *Statement No. 100, Accounting Changes and Error Corrections* in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

June 30, 2023

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The GASB issued **Statement No. 101, *Compensated Absences*** in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

June 30, 2023

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

ACCOUNTING AND OTHER MATTERS

CURRENT GASB PROJECTS

June 30, 2023

GASB currently has a variety of projects in process. Some of these projects discussed below.

Conceptual Framework – Recognition. The project’s objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. This project is currently in exposure draft re-deliberations period.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government’s accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. This project is currently in exposure draft re-deliberations period.

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. This project is currently in the preliminary views re-deliberations period.

Going Concern Uncertainties and Severe Financial Stress. The objective of this project is to address issues related to disclosures regarding going concern uncertainties and severe financial stress. The project will consider (1) improvements to existing guidance for going concern considerations to address diversity in practice and clarify the circumstances under which disclosure is appropriate, (2) developing a definition of severe financial stress and criteria for identifying when governments should disclose their exposure to severe financial stress, and (3) what information about a government’s exposure to severe financial stress is necessary to disclose. This project is currently in the initial deliberations period. Additionally, infrastructure assets have been added to the agenda.

Appendix A

Management Representation Letter



9/13/2023

Brown, Edwards & Company, L.L.P.
701 Town Center Drive, Suite 700
Newport News, VA 23606

This representation letter is provided in connection with your audit of the financial statements of Virginia Commercial Space Flight Authority, which comprise the financial position of the business-type activities as of June 30, 2023, and the changes in financial position and cash flows for the year then ended, and the disclosures (collectively, the “financial statements”), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 20, 2023, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The Authority’s financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. We are in agreement with the adjusting and reclassification journal entries you have posted that were prepared by management. Also, we are not aware of any unadjusted audit differences or missing or incomplete disclosures noted by you during your audit.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the Virginia Commercial Space Flight Authority is contingently liable, if any, have been properly recorded or disclosed.
11. We have provided the planning communication letter to all members of those charged with governance as requested.

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Virginia Commercial Space Flight Authority from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud that affects the Virginia Commercial Space Flight Authority and involves:
 - Management,
 - Employees who have significant roles in internal control,
 - Service organizations used by the entity, or



- Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Virginia Commercial Space Flight Authority's financial statements communicated by employees, former employees, regulators, or others.
 17. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
 18. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. Also, we have not contacted an attorney concerning litigations, claims or assessments during fiscal year ended June 30, 2023 through the date of this letter.
 19. We have disclosed to you the identity of the Virginia Commercial Space Flight Authority's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. The Virginia Commercial Space Flight Authority has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
23. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
24. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.




27. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
28. As part of your audit, you advised management about appropriate accounting principles, assisted with preparation of the financial statements and related notes, assisted with the preparation of the component unit reports for the Commonwealth of Virginia and assisted with the ongoing accounting related to GASB 87, *Leases* and with the implementation of GASB 96, *Subscription-based Information Technology Arrangements*. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and ensured that the entity's data and records are complete and received sufficient information to oversee the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
29. The Virginia Commercial Space Flight Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The Virginia Commercial Space Flight Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. There are no component units or joint ventures with an equity interest that should be included in the financial statements. All other joint ventures and other related organizations are properly disclosed in the financial statements.
32. The financial statements properly classify all funds and activities in accordance with [GASB Statement No. 34, as amended, and GASB Statement No. 84](#).
33. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
36. Revenues are appropriately classified in the statement of activities within operating and nonoperating revenues.
37. Deposits are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.



39. We have not completed the process of evaluating the impact that will result from adopting new Governmental Accounting Standards Board Statements (GASBS) that are not yet effective, as discussed in the notes to financial statements. The entity is therefore unable to disclose the impact that adopting these Statements will have on its financial position and the results of its operations when the Statements are adopted.
40. We have appropriately disclosed the Virginia Commercial Space Flight Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
41. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
42. To the best of our knowledge and belief, no events have occurred subsequent to June 30, 2023, and through the date this letter is signed that would require adjustment to or disclosure in the aforementioned financial statements.
43. We have taken timely and appropriate steps to remedy noncompliance with Virginia State Code provisions as noted at VA-2023-001.
44. We reaffirm the representations made to you in our letter dated September 6, 2022, regarding your audit for the fiscal year ended June 30, 2022.

Signature: 
Ted Mercer, CEO and Executive Director

Signature: 
David Bruce, Chief Financial Officer

Appendix B

Adjusting Journal Entries

Client: 160010.000 - Virginia Commercial Space Flight Authority
Engagement: 23 AUD - VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Period Ending: 6/30/2023
Trial Balance: 3005 - Trial Balance Database
Workpaper: 3705 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 4		4332		
To record the CY lease revenue & receivables and related deferred inflows				
2920	Deferred Inflow of Resources		121,230.00	
4140	Other		126,374.00	
1225	Lease Receivable			93,203.00
1230	Interest Receivable			253.00
4145	Lease Revenue			121,230.00
4150	Interest			32,918.00
Total			247,604.00	247,604.00
Adjusting Journal Entries JE # 6		4674		
To record the lease right of Use Asset and Lease Liability				
1551	Lease Right Of Use Assets		621,339.00	
2875	Lease Liability			611,339.00
5420	Property Rental			10,000.00
Total			621,339.00	621,339.00
Adjusting Journal Entries JE # 7		4674		
To record the CY amortization expense				
5831	Amortization Expense		420,268.00	
1930	Accumulated Amortization - Lease Assets			420,268.00
Total			420,268.00	420,268.00
Adjusting Journal Entries JE # 8		4674		
To record interest expense and principal payments on the lease liability				
2875	Lease Liability		357,647.00	
5520	Interest		86,621.00	
2330	Interest Payable			1,310.00
5420	Property Rental			442,958.00
Total			444,268.00	444,268.00
Adjusting Journal Entries JE # 10		6120		
To remove life insurance expense posted and true up beginning retained earnings				
5203	Life & Disability Benefit		4,032.00	
3110	Fund Balance-Undesignated			4,032.00
Total			4,032.00	4,032.00
Adjusting Journal Entries JE # 11		3707		
PBC entry to true up the A/P balance as of 6/30/2023.				
1111	SunTrust Operating Account		180.00	
2205	SunTrust Payables Manager Balance		26,264.00	
2201	A/P Trade			26,444.00
Total			26,444.00	26,444.00
Adjusting Journal Entries JE # 12		PBC		
To true up accrued PTO.				
5264	Paid Time Off		39,760.00	
2264	Accrued - PTO			39,760.00
Total			39,760.00	39,760.00
Adjusting Journal Entries JE # 13		4684		
To record the SBITA balances related to the Networking Concepts, Inc. agreement.				
BE2	Lease Asset - SBITA		199,532.00	
BE7	Interest Expense - SBITA		7,735.00	
BE8	Amortization Expense - SBITA		39,905.00	
5408	Software			43,950.00
BE3	Accumulated Amortization - SBITA			39,906.00
BE4	LT Lease Liability - SBITA			120,013.00
BE5	ST Lease Liability - SBITA			36,358.00
BE6	Interest Payable - SBITA			6,945.00
Total			247,172.00	247,172.00