

**OREGON HEALTH AND SCIENCE UNIVERSITY
VACCINE AND GENE THERAPY
INSTITUTE FLORIDA CORP.**

**Consolidated Financial Statements
and
Supplemental Information**

June 30, 2010

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

**Consolidated Financial Statements
and
Supplemental Information**

June 30, 2010

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Independent Auditors' Report

To the Board of Directors
Oregon Health and Science University Vaccine
and Gene Therapy Institute Florida Corp.
Port St. Lucie, Florida

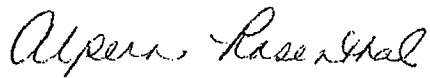
We have audited the accompanying consolidated statement of financial position of Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp. (VGTI), as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of VGTI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of VGTI as of June 30, 2009, were audited by other auditors whose report dated October 16, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated 2010 financial statements referred to above present fairly, in all material respects, the financial position of VGTI as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010 on our consideration of VGTI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards and state financial assistance, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.



October 20, 2010

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Consolidated Statement of Financial Position

June 30	2010
ASSETS	
Cash and cash equivalents	\$ 40,840,883
Receivables	
Grants and contracts	959,427
Other	22,500
Cash held in escrow - Note 2	50,999,773
Prepaid expenses and other assets	833,591
Property and equipment - net - Note 3	13,308,833
Deferred financing costs - Note 4	<u>6,538,306</u>
Total Assets	<u><u>\$ 113,503,313</u></u>
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	\$ 1,539,146
Deferred contract and grant revenues	36,251,663
Other current liabilities	173,890
Long-term debt - Note 4	<u>65,268,532</u>
Total Liabilities	<u>103,233,231</u>
Net Assets	
Unrestricted	9,837,499
Temporarily restricted	<u>432,583</u>
Total Net Assets	<u>10,270,082</u>
Total Liabilities and Net Assets	<u><u>\$ 113,503,313</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Consolidated Statement of Activities

For the Year Ended June 30	2010
CHANGES IN UNRESTRICTED NET ASSETS	
Revenues	
Grants and contracts	<u>\$ 9,959,581</u>
Expenses	
Salaries and wages	3,051,098
Supplies	1,576,760
Purchased services	861,698
Maintenance and repairs	143,588
Utilities and related expenses	113,435
Rentals and leases	763,059
Other expenses	1,052,062
Depreciation and amortization	<u>1,253,549</u>
Total Expenses	<u>8,815,249</u>
Increase in Unrestricted Net Assets	1,144,332
Temporarily Restricted Contributions/Increase in Temporarily Restricted Net Assets	<u>432,583</u>
Increase in Net Assets	1,576,915
Net Assets - Beginning of year	<u>8,693,167</u>
Net Assets - End of year	<u><u>\$ 10,270,082</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Consolidated Statement of Cash Flows

For the Year Ended June 30	2010
Cash Provided by (Used for) Operating Activities	
Increase in net assets	\$ 1,576,915
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation and amortization	1,253,549
Noncash contribution	(432,467)
Changes in	
Grants and contracts receivable	(959,427)
Prepaid expenses and other assets	(274,132)
Accounts payable and accrued expenses	158,550
Deferred contract and grant revenues	(7,476,341)
Other current liabilities	173,890
Net Cash Used for Operating Activities	<u>(5,979,463)</u>
Cash Used for Investing Activities	
Purchase of property and equipment	<u>(5,850,870)</u>
Cash Provided by (Used for) Financing Activities	
Proceeds from long-term debt	57,165,832
Payments on long-term debt	(3,470,913)
Proceeds from Florida State grant	40,000,000
Net deposits held in trustee escrow	(50,999,773)
Payments for financing costs	<u>(471,259)</u>
Net Cash Provided by Financing Activities	<u>42,223,887</u>
Net Increase in Cash and Cash Equivalents	30,393,554
Cash and Cash Equivalents - Beginning of year	<u>10,447,329</u>
Cash and Cash Equivalents - End of year	<u>\$ 40,840,883</u>
 Supplemental Schedules of Noncash Investing and Financing Activities	
Financing costs paid directly from bond proceeds	<u>\$ 6,085,393</u>
Contribution received as forgiveness of debt	<u>\$ 432,583</u>

The accompanying notes are an integral part of these consolidated financial statements.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp. (VGTI) is incorporated in the state of Florida as a nonprofit public benefit corporation for the purpose of conducting scientific research. VGTI is a research institute focused on the development of new vaccines and therapeutics, plus novel immune and gene therapies to boost the immune system. VGTI is an integral part of a life sciences cluster in Southern Florida that includes other research and medical institutes, companies and universities.

A. Principles of Consolidation

VGTI is the sole member of Florida Innovation Partners, LLC (FIP), a limited liability company, formed in November 2009 for the purpose of marketing development within the Port St Lucie, Florida area. The consolidated financial statements include the accounts of VGTI and FIP for 2010. All significant intercompany balances have been eliminated in consolidation.

B. Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

VGTI considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The majority of cash and cash equivalents are maintained at two national financial institutions. Account balances at June 30, 2010 exceeded Federal Deposit Insurance Corporation limits, but were fully guaranteed under the Federal Transaction Account Guarantee (TAG) Program.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Receivables

Grants and contracts receivable consist of amounts billed and unbilled on grants and contracts for services provided through June 30, 2010. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with public funding sources and customers having outstanding balances and current relationships with them, it believes that realization losses on balances outstanding at year end will be immaterial. Therefore, no allowance for doubtful accounts was considered necessary at June 30, 2010.

F. Deferred Financing Costs

VGTI incurred financing costs in connection with the issuance of the Series 2010 Research Facilities Revenue Bonds (Note 4). These costs, consisting primarily of underwriting, legal, and consulting fees, are amortized over the term of the debt using the straight-line method. Accumulated amortization was approximately \$16,000 at June 30, 2010.

G. Property and Equipment

Property and equipment is carried at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of assets ranging from three to twenty years.

Maintenance and repairs which are not considered to extend the useful lives of assets are charged to expense as incurred. Expenditures for additions and improvements are capitalized. Upon sale or retirement, the cost of assets and related allowances are removed from the accounts and any gains or losses are included in income (expense) for the year.

H. Deferred Contract and Grant Revenue

Deferred revenue represents amounts received from grants and contracts in advance of the funds being earned. Revenue is recognized as related qualified expenditures are incurred. Deferred revenue consisted of the following as of June 30, 2010:

State of Florida - Note 8	\$35,572,731
FIP marketing revenue	448,346
Other	<u>230,586</u>
Total deferred contract and grant revenue	<u>\$36,251,663</u>

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

I. Original Issue Discount

Original issue discount on long-term debt is amortized using the straight-line method over the term of the related debt. Unamortized original issue discount is reported as a reduction of long-term debt. Amortization of original issue discount, included in depreciation and amortization expense, was approximately \$2,000 in 2010.

J. Revenue Recognition

VGTI enters into cost reimbursement contracts and grants with Federal agencies and the state of Florida to develop and conduct research related to vaccine and gene therapy. These contracts and grants are for specific time periods and to achieve specific results. Revenue from these cost reimbursement contracts and grants is recognized to the extent of eligible costs incurred, up to the maximum grant or contract amount. The amount of funding is negotiated in advance of the research being undertaken.

Contributions are recorded as revenue at their present value when unconditionally pledged or when received, whichever is earlier. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the donor's restriction. When the time or donor restriction has been met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Temporarily restricted net assets at June 30, 2010 represent a contribution made in the form of debt forgiveness, restricted for future infrastructure development.

K. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional expense basis in the consolidated financial statements. Accordingly, certain costs not charged directly to a program have been allocated among the programs and supporting services benefited. For the year ended June 30, 2010, program services totaled approximately \$3,423,000 and supporting services totaled approximately \$5,396,000.

VGTI applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that, as required under other standards, are recognized or disclosed at fair value in the financial statements on a recurring basis. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that requires or permits fair value measurements, but does not require any new fair value measurements.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

L. Fair Value Measurements

VGTI defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, VGTI considers the principal or most advantageous market in which VGTI would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

VGTI applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

VGTI's financial instruments include cash and cash equivalents, grant and contract receivable, and a note payable. The carrying values of the cash and cash equivalents, grant and contracts receivable, and the note payable approximate fair value due to the short-term nature of these financial instruments. The fair value of the bond payable is determined based on quoted market prices for the same or similar issues or on the current rates offered to VGTI for debt of the same remaining maturities and approximates the carrying value. The initial issue date of the bonds corresponded closely with the fiscal year end of VGTI and, accordingly, the fair value of the bonds approximated the issuance amount as of June 30, 2010.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

M. Income Taxes

VGTI is a nonprofit public benefit corporation and has obtained exemptions from Federal and state income taxes under Internal Revenue Code Section 501(c)(3).

FIP has elected to be taxed as a limited liability company under the Internal Revenue Code, and is a disregarded entity for Federal tax purposes. Under those provisions, VGTI is to report any income of FIP on its tax filing. Accordingly, no provision for income taxes is necessary.

N. Recently Issued Accounting Standards

On September 15, 2009, the Financial Accounting Standards Board's Accounting Standards Codification (Codification) became the single source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but did not change or alter existing generally accepted accounting principles in the United States of America. The Codification became effective for VGTI at that date.

VGTI adopted the accounting standard for uncertain tax positions as of July 1, 2009. The standard requires a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. The adoption of the standard on uncertain tax positions did not have a material impact on VGTI's financial statements at June 30, 2010.

O. Consideration of Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 20, 2010, the day the financial statements were approved and authorized for issue.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 2 - Cash Held in Escrow

Cash held in escrow consists of cash held by the trustee under the agreement related to the issuance of the Series 2010 Research Facilities Revenue Bonds (Note 4). The agreement requires certain reserves and deposits be held for the facilitation of debt service and the costs of infrastructure and construction of a new facility for VGTI. Cash held in escrow consists of the following at June 30, 2010:

Project fund	\$38,404,977
Interest reserve	7,543,070
Debt service reserve	4,146,213
Infrastructure costs	<u>905,513</u>
Total cash held in escrow	<u>\$50,999,773</u>

Note 3 - Property and Equipment

Property and equipment consists of the following at June 30, 2010:

Land and land improvements	\$ 5,676,458
Leasehold improvements	420,575
Construction in progress - buildings	4,026,343
Equipment and furniture	<u>4,495,728</u>
	14,619,104
Less: Accumulated depreciation	(<u>1,310,271</u>)
	<u>\$13,308,833</u>

Note 4 - Long-term Debt

Long-term debt consists of the following at June 30, 2010:

Series 2010 Research Facilities Revenue Bonds	\$64,035,000
Special assessment district loan	<u>2,015,347</u>
	66,050,347
Unamortized original issue discount	(<u>781,815</u>)
	<u>\$65,268,532</u>

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 4 - Long-term Debt (Continued)

On June 3, 2010, the City of Port St. Lucie, Florida (the City) issued tax-exempt Research Facilities Revenue Bonds, Series 2010 in the aggregate amount of \$64,035,000 on behalf of VGTI. Interest on the Series 2010 bonds is to be payable on May 1 and November 1 of each year, beginning in November 2010, with interest rates ranging from 3% to 5%. Accrued and capitalized interest on the bonds as of June 30, 2010 was \$243,325.

The bond proceeds are being used to provide funds, together with other available money, for the purpose of paying or reimbursing the costs of certain land and land development located in the City and the approximately 99,000 gross square foot building to be constructed on the land to be used for purposes of biomedical and other scientific research, development, training and educational facilities. The bond proceeds were also used to fund capitalized interest on the Series 2010 bonds until November 1, 2012, fund a debt service reserve, fund capitalized interest, and pay the costs of issuance.

The sources and uses of funds in connection with the bond issuance were as follows:

Sources	
Principal amount of Series 2010 bonds	\$64,035,000
Net original issue discount	(<u>783,774</u>)
	<u>\$63,251,226</u>
Uses	
Project fund	\$45,300,000
Interest reserve	7,543,070
Debt service reserve	4,146,213
Costs of issuance	1,261,943
City credit enhancement fee	<u>5,000,000</u>
	<u>\$63,251,226</u>

VGTI has a special assessment district loan with the City for local land improvements that will be maintained by the local government, such as streets, pavement, sewers, and drainage systems. The loan is payable in 30 annual installments of \$148,298, including interest at 6.12% through November 2039.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 4 - Long-term Debt (Continued)

Approximate future maturities of long-term debt are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 25,000
2012	26,000
2013	1,043,000
2014	1,075,000
2015	1,122,000
Thereafter	<u>62,759,000</u>
Long-term debt	<u>\$66,050,000</u>

Note 5 - Employee Benefit Plan

VGTI has a defined contribution annuity plan (the Plan). Most employees are eligible to participate in the Plan after six months of employment. VGTI contributes 6% of the employee's annual compensation to the Plan. Each participant is immediately fully vested in both VGTI's and the employee's contribution.

VGTI's expense related to the Plan was approximately \$123,000 for the year ended June 30, 2010.

Note 6 - Operating Lease Commitments

VGTI leases office space and research facilities under an operating lease agreement that expires in November 2011. VGTI has the right to extend the term for an indeterminate period, based on specific criteria.

VGTI also leases condo space under a lease agreement that expires on December 31, 2010 and several operating leases for office equipment with future noncancelable payments.

Rent expense under the operating lease agreements was approximately \$763,000 for 2010.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 6 - Operating Lease Commitments (Continued)

Minimum future rental payments and obligations as of June 30, 2010 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 803,000
2012	336,000
2013	11,000
2014	<u>7,000</u>
	<u>\$1,157,000</u>

Note 7 - Commitments and Contingencies

Legal Proceedings

From time to time, VGTI may be involved in various claims and legal actions arising in the ordinary course of business. Liabilities are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

VGTI's management is aware of a current claim, of approximately \$500,000, relating to costs associated with a failed attempt to issue bonds that occurred prior to the issuance of the Series 2010 bonds. The claimant is asserting that they should be compensated for costs they incurred while working on the attempted issuance. This claim has been submitted to VGTI's insurance company for review. VGTI believes this claim does not have merit as the contractual commitment with this party had expired. However, at this point, neither VGTI nor its attorney can determine what the ultimate outcome of the claim will be.

Grants and Contracts

VGTI receives a significant portion of its grant and contract revenue from Federal and state sources. Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both as a result of noncompliance with the terms of the grants or contracts. VGTI is not aware of any requests for reimbursement from any funding sources.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Notes to the Consolidated Financial Statements (Continued)

Note 8 - State of Florida - Funding Agreement

In April 2008, VGTI and the state of Florida, Executive Office of the Governor's Office of Tourism, Trade and Economic Development (OTTED) executed a Funding Agreement (the State Agreement). The State Agreement provides that VGTI is to receive a total of \$60,000,000 over a ten-year period to establish a state-of-the-art vaccine and gene therapy research institution in Florida. Cash received under the grant from inception through June 30, 2010 was \$55,000,000. Revenue recognized from the State Agreement accounted for approximately 85% of total revenue for 2010.

In order to receive the funds, VGTI must submit a funding request, together with various progress reports, and must maintain compliance with certain covenants and conditions including an annual measurement of the number of jobs created in Florida and the average wage of such jobs. If VGTI fails to meet its contractual obligations under the State Agreement, disbursements may be decreased or, in the case of a material default, ceased. In addition, disbursements may be reduced or eliminated in the year following a material default, examples of which include a knowing misrepresentation in the funding request, VGTI's declaration of bankruptcy, or the loss of VGTI's tax-exempt status. VGTI, however, will not be obligated to repay any unspent grant funds, or to reimburse Florida for expended grant funds provided such expenditures complied with the terms of the State Agreement. If VGTI ceases to exist, any unspent funds would be returned to the state.

Funding under the State Agreement was as follows for the year ended June 30, 2010:

Deferred revenue July 1, 2009	\$ 3,728,004
Cash advances	40,000,000
Grant revenue recognized	(<u>8,155,273</u>)
Deferred revenue June 30, 2010 - Note 1H	\$ <u>35,572,731</u>

OTTED has a security interest in property and equipment acquired with grant funds as well as unexpended funds.

SUPPLEMENTAL INFORMATION

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Year Ended June 30, 2010

Program Title/Federal Grantor/ <u>Pass-through Grantor</u>	<u>CFDA #</u>	Pass-through Grant or Contract <u>Number</u>	<u>Amount Expended</u>
RESEARCH AND DEVELOPMENT			
<u>U.S. Department of Health and Human Services</u>			
Pass-through other organizations			
Oregon Health and Science University	93.279	1DP1DA028871	\$ 575,298
Baylor Research Institute	93.855	2U19AI057234-06	211,250
Case Western Reserve University	93.855	RES504825	284,611
Emory University	93.855	A1080192-02	<u>75,183</u>
Total U.S. Department of Health and Human Services			<u>1,146,342</u>
Total Expenditures of Federal Awards			<u>\$ 1,146,342</u>
<u>State of Florida</u>			
Direct - Innovation Incentive Program	31.054		<u>\$ 8,155,273</u>
Total Expenditures of State Financial Assistance			<u>\$ 8,155,273</u>

See independent auditors' report.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Note to the Schedule of Expenditures of Federal Awards and State Financial Assistance

Note 1 - Basis of Presentation

The schedule of expenditures of Federal awards and state financial assistance is prepared in accordance with the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2010

A. Summary of Auditors' Results

Type of Auditors' Report Issued:	Unqualified
	<u>YES</u> <u>NO</u>
Internal Control Over Financial Reporting	
Material weaknesses identified?	X
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Non-compliance Material to Financial Statements Noted?	X
Federal Awards	
Internal control over major program	
Material weaknesses identified?	X
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of Auditors' Report Issued on Compliance for Major Programs	Unqualified
Any Audit Findings Disclosed That are Required to be Reported in Accordance With Section 510(a) of OMB Circular A-133	X
Identification of Major Programs	
<u>Name of Federal/State Program of Cluster</u>	<u>CFDA/CFSA Number</u>
Federal - Research and Development Cluster	Various
State of Florida - Innovation Incentive Program	31.054
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	X

**OREGON HEALTH AND SCIENCE UNIVERSITY VACCINE
AND GENE THERAPY INSTITUTE FLORIDA CORP.**

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

B. Financial Statement Findings

None

C. Federal and State Award Findings and Questioned Costs

None

ADDITIONAL REPORTS



**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
Oregon Health and Science University Vaccine
and Gene Therapy Institute Florida Corp.
Port St. Lucie, Florida

We have audited the consolidated financial statements of Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp. (VGTI) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered VGTI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VGTI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VGTI's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, Federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Alper Lasenthal".

October 20, 2010



**Report on Compliance With Requirements That
Could Have a Direct and Material Effect on Each Major
Federal and State Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133
and Chapter 10.650, Rules of the Auditor General**

To the Board of Directors
Oregon Health and Science University Vaccine
and Gene Therapy Institute Florida Corp.
Port St. Lucie, Florida

Compliance

We have audited Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp.'s (VGTI's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the Florida Department of Financial Services State Projects Compliance Supplement, that could have a direct and material effect on each of VGTI's major Federal and state programs for the year ended June 30, 2010. VGTI's major Federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal and state programs is the responsibility of VGTI's management. Our responsibility is to express an opinion on VGTI's compliance based on our audit.

We conducted our audit of compliance 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 of America; and OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal or state program occurred. An audit includes examining, on a test basis, evidence about VGTI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of VGTI's compliance with those requirements.

Compliance (Continued)

In our opinion, VGTI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal and state programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of VGTI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal and state programs. In planning and performing our audit, we considered VGTI's internal control over compliance with the requirements that could have a direct and material effect on a major Federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of VGTI's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal or state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, Federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alpern Rosenthal

October 20, 2010