

**VACCINE AND GENE THERAPY
INSTITUTE OF FLORIDA CORP.**

**Consolidated Financial Statements
and
Supplementary Information**

June 30, 2011 and 2010

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

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Independent Auditors' Report

**To the Board of Directors
Vaccine and Gene Therapy Institute of Florida Corp.
Port St. Lucie, Florida**

We have audited the accompanying consolidated statements of financial position of Vaccine and Gene Therapy Institute of Florida Corp. (VGTI) (formerly Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp.), as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VGTI as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, VGTI has restated its 2010 and 2009 financial statements during the year ended June 30, 2011 to adjust for the impact of converting from one acceptable accounting principle to another related to revenue recognition and property and equipment capitalization.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of VGTI taken as a whole. The accompanying consolidated statement of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal awards and state financial assistance, is also 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.

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

October 21, 2011

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statements of Financial Position

June 30	2011	Restated 2010
ASSETS		
Cash and cash equivalents	\$ 34,567,687	\$ 40,840,883
Receivables		
Grants and contracts	1,060,036	1,082,196
Other	91,535	22,500
Cash held in escrow - Note 3	28,571,220	50,999,773
Prepaid expenses and other assets	567,970	833,591
Property and equipment - net - Note 4	39,565,130	13,631,858
Deferred financing costs - Note 5	6,581,136	6,556,652
Total Assets	\$ 111,004,714	\$ 113,967,453
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 5,995,874	\$ 1,539,146
Deferred contract and grant revenues - Note 6	39,921,419	46,844,266
Other current liabilities	-	173,890
Long-term debt - Note 5	64,916,677	65,268,532
Total Liabilities	110,833,970	113,825,834
Net Assets		
Unrestricted	170,744	(290,964)
Temporarily restricted	-	432,583
Total Net Assets	170,744	141,619
Total Liabilities and Net Assets	\$ 111,004,714	\$ 113,967,453

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statements of Activities

For the Years Ended June 30	2011	Restated 2010
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues		
Grants and contracts	\$ 11,122,944	\$ 7,948,334
Other	323,843	93,913
Satisfaction of capital restrictions	432,583	-
Total Unrestricted Revenues	11,879,370	8,042,247
Expenses - Note 11		
Salaries and wages	5,787,087	3,051,098
Supplies and equipment expensed	1,747,897	1,576,760
General and administration	701,356	767,785
Rentals and leases	872,064	763,059
Repairs and maintenance	179,685	143,588
Utilities and waste disposal	77,734	113,435
Other expenses	796,806	1,052,062
FIP expenses	300,308	93,913
Depreciation and amortization	954,725	912,178
Total Expenses	11,417,662	8,473,878
Increase (Decrease) in Unrestricted Net Assets	461,708	(431,631)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	432,583
Net assets released from restrictions	(432,583)	-
Increase (Decrease) in Temporarily Restricted Net Assets	(432,583)	432,583
Total Increase in Net Assets	29,125	952
Net Assets - Beginning of year	141,619	140,667
Net Assets - End of year	\$ 170,744	\$ 141,619

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statements of Cash Flows

For the Years Ended June 30	2011	Restated 2010
Cash Provided by (Used for) Operating Activities		
Increase in net assets	\$ 29,125	\$ 952
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation and amortization	954,725	912,178
Noncash contribution	-	(432,467)
Changes in		
Grants and contracts receivable	22,160	(1,082,196)
Prepaid expenses and other assets	196,586	(274,132)
Accounts payable and accrued expenses	1,072,588	158,550
Deferred contract and grant revenues	(6,922,847)	(5,436,237)
Other current liabilities	(173,890)	173,890
Net Cash Used for Operating Activities	<u>(4,821,553)</u>	<u>(5,979,462)</u>
Cash Used for Investing Activities		
Purchase of property and equipment	<u>(23,832,904)</u>	<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	(22,808)	(3,470,914)
Proceeds from Florida State grant	-	40,000,000
Net withdraw (deposits) of funds held in trustee escrow	22,428,553	(50,999,773)
Payments for financing costs	(24,484)	(471,259)
Net Cash Provided by Financing Activities	<u>22,381,261</u>	<u>42,223,886</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,273,196)	30,393,554
Cash and Cash Equivalents - Beginning of year	<u>40,840,883</u>	<u>10,447,329</u>
Cash and Cash Equivalents - End of year	<u>\$ 34,567,687</u>	<u>\$ 40,840,883</u>

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30	2011	Restated 2010
Supplemental Schedules of Noncash Investing and Financing Activities		
Financing costs paid directly from bond proceeds	<u>\$ -</u>	<u>\$ 6,085,393</u>
Contribution received as forgiveness of debt	<u>\$ -</u>	<u>\$ 432,583</u>
Accounts payable and accrued expenses incurred for construction in progress	<u>\$ 3,384,140</u>	<u>\$ 243,325</u>
Adjustment of assessment note and corresponding property and equipment (Note 5)	<u>\$ 327,088</u>	<u>\$ -</u>

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Vaccine and Gene Therapy Institute of Florida Corp. (VGTI) is incorporated in the state of Florida as a non-profit 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.

VGTI was formerly known as Oregon Health and Science University Vaccine and Gene Therapy Institute Florida Corp. On December 16, 2010, the organization changed its name to Vaccine and Gene Therapy Institute of Florida Corp.

A. Principles of Consolidation

The consolidated financial statements include the accounts of VGTI and Florida Innovation Partners, LLC (FIP). VGTI is the sole member of FIP, a limited liability company, formed in November 2009 for the purpose of marketing development within the Port St Lucie, Florida area. 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. Non-interest bearing accounts, totaling approximately \$2.5 million at June 30, 2011 were insured through December 31, 2012 under the Dodd-Frank Deposit Insurance Provision. Other account balances exceeded Federal Deposit Insurance Corporation limits.

VACCINE AND GENE THERAPY INSTITUTE OF 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. 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 the 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, 2011 and 2010.

F. Deferred Financing Costs

VGTI incurred financing costs in connection with the issuance of the Series 2010 Research Facilities Revenue Bonds (Note 5). These costs, consisting primarily of underwriting, legal and consulting fees, will be amortized over the life of the property financed using the straight-line method. Amortization will begin when the associated building under construction is placed in service.

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. 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.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

I. 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.

Amounts received from grants and contracts in advance of the funds being earned are recorded as deferred revenue. Revenue is recognized as related qualified expenditures are incurred.

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.

J. 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.

K. Fair Value Measurements

VGTI applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring and non-recurring basis. 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.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

K. Fair Value Measurements

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 receivables, and a note payable. The carrying values of the cash and cash equivalents, grant and contract receivables, 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.

L. 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.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

M. Recently Issued Accounting Standard

In January 2010, the Financial Accounting Standards Board issued additional guidance for disclosing fair value. This guidance requires new and revised disclosures for recurring and non-recurring fair value measurements, related to significant transfers into and out of Level 1 and Level 2, and for purchases, sales, issuances and settlements in the roll forward of activity for Level 3 fair value measurements. The guidance also clarifies existing disclosures related to the level of disaggregation and the inputs and valuation techniques used for fair value measurements. The new disclosures and clarifications of existing disclosures about fair value measurements were effective for reporting periods beginning after December 15, 2009. However, the disclosures about purchases, sales, issuances and settlements in the roll forward of activity for Level 3 fair value measurements are not effective until reporting periods beginning after December 15, 2010. The adoption of this guidance did not, and is not expected to, have a material impact on VGTI's financial position, results of operations, or cash flows.

N. Consideration of Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 21, 2011, the day the financial statements were approved and authorized for issue.

O. Reclassifications

Certain reclassifications have been made to the 2010 financial statements in order to conform with 2011 presentation.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 2 - Restatement

During 2011, VGTI determined that it would convert from one acceptable accounting principle to another related to its policies for revenue recognition and property and equipment capitalization. Management believes the new policies implemented better reflect the operations of VGTI and are preferable over the prior policies followed. VGTI accounted for these amounts as a change in accounting principle and applied the changes on a retrospective basis.

Revenue Recognition

The state of Florida OTTED funds (Note 10) are provided to supplement the operations of VGTI as it develops its research capabilities in Florida and develops a work force. OTTED has funded a large portion of the grant commitment up front which has resulted in deferred revenue. In 2010 and 2009, VGTI recognized revenue for these funds based on amounts spent for operating costs and property and equipment additions. This resulted in the buildup of a large net asset balance due to the significant equipment additions funded by OTTED and capitalized on the balance sheet of VGTI. Upon further review, management determined that it would be more preferential to release deferred revenue based on operating costs and depreciation, as this better matches the operational efforts that management understands OTTED intends to fund.

Property and Equipment Capitalization

During 2009 and 2010 land development costs of approximately \$6,000,000 were reflected as being placed in service and depreciation expense was recorded totaling approximately \$323,000. These costs related to items such as sewer and road development. Based on further assessment it was determined that a more preferable treatment would be that land improvements are placed into service when the building is placed in service as the useful life would most likely follow that of the building.

Net assets were restated to reflect the increase of deferred revenue for the change in revenue recognition of approximately \$8,553,000 at June 30, 2009 and \$2,040,000 at June 30, 2010.

In addition, the 2010 financial statements were restated to reflect the change in capitalization policy for property and equipment, resulting in an approximately \$340,000 increase to property and equipment and net assets.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 3 - 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:

	<u>2011</u>	<u>2010</u>
Project fund	\$19,729,898	\$38,404,977
Interest reserve	4,694,799	7,543,070
Debt service reserve	4,146,523	4,146,213
Infrastructure costs	<u>-</u>	<u>905,513</u>
Total cash held in escrow	<u>\$28,571,220</u>	<u>\$50,999,773</u>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2011</u>	<u>Restated 2010</u>
Land	\$ 10	\$ 10
Leasehold improvements	422,085	422,085
Construction in progress - buildings and land improvements	36,053,253	9,701,281
Equipment and furniture	<u>5,031,753</u>	<u>4,495,728</u>
	41,507,101	14,619,104
Less: Accumulated depreciation	(<u>1,941,971</u>)	(<u>987,246</u>)
	<u>\$39,565,130</u>	<u>\$13,631,858</u>

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 5 - Long-term Debt

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

	<u>2011</u>	<u>2010</u>
Series 2010 Research Facilities Revenue Bonds	\$64,035,000	\$64,035,000
Special assessment district loan	<u>1,665,451</u>	<u>2,015,347</u>
	65,700,451	66,050,347
Unamortized original issue discount	(<u>783,774</u>)	(<u>781,815</u>)
	<u>\$64,916,677</u>	<u>\$65,268,532</u>

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 payable on May 1 and November 1 of each year, beginning in November 2010, with interest rates ranging from 3% to 5%.

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>

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 5 - Long-term Debt (Continued)

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 final assessment amount was determined in 2011, resulting in a reduction of the note of \$327,088. The loan is payable in 30 annual installments of approximately \$118,000, including interest at 5.62% through November 2039.

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

Year Ending <u>June 30</u>	<u>Amount</u>
2011	\$ 24,000
2012	1,040,000
2013	1,072,000
2014	1,118,000
2015	1,160,000
Thereafter	<u>60,503,000</u>
Long-term debt	<u>\$64,917,000</u>

Note 6 - Deferred Contract and Grant Revenue

Deferred revenue consisted of the following as of June 30:

	<u>2011</u>	Restated <u>2010</u>
State of Florida - Note 10	\$39,243,587	\$46,165,334
FIP marketing revenue	148,039	448,346
Other	<u>529,793</u>	<u>230,586</u>
Total deferred contract and grant revenue	<u>\$39,921,419</u>	<u>\$46,844,266</u>

Note 7 - 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 \$267,000 in 2011 and \$123,000 in 2010.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 8 - Operating Lease Commitments

VGTI leases office space and research facilities under an operating lease agreement that expires in November 2011. Management has entered into a verbal agreement to extend this lease through March 2012. VGTI also leases condo space under a lease agreement that expires on December 31, 2011 and several operating leases for office equipment with future noncancelable payments. Rent expense under the operating lease agreements was approximately \$872,000 in 2011 and \$763,000 in 2010.

Minimum future rental payments and obligations, including the verbal extension note above, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2012	\$653,000
2013	11,000
2014	<u>7,000</u>
	<u>\$671,000</u>

Note 9 - 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.

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.

Note 10 - 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, 2011 was \$55,000,000. Revenue recognized from the State Agreement accounted for approximately 60% of total revenue for 2011 and 72% of revenue for 2010.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 10 - State of Florida - Funding Agreement (Continued)

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 and deferred revenue (Note 6) under the State Agreement was as follows:

Deferred revenue July 1, 2009 - Restated	\$12,280,504
Cash advances	40,000,000
Grant revenue recognized - Restated	(<u>6,115,170</u>)
Deferred revenue June 30, 2010 - Restated	46,165,334
Grant revenue recognized	(<u>6,921,747</u>)
Deferred revenue June 30, 2011	<u>\$39,243,587</u>

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

Note 11 - Expenses

Expenses by functional classifications were as follows:

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Program services	\$ 9,589,358	84%	\$7,050,975	83%
Administration	1,541,389	13	1,394,993	16
Fundraising/development	<u>286,915</u>	<u>3</u>	<u>27,910</u>	<u>1</u>
Total expenses	<u>\$11,417,662</u>	<u>100%</u>	<u>\$8,473,878</u>	<u>100%</u>

SUPPLEMENTARY INFORMATION

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2011

	Program Services	Management and General	Fundraising and Development	Total Supporting Services	Total
Salaries and wages	\$ 4,855,847	\$ 844,912	\$ 86,328	\$ 931,240	\$ 5,787,087
Equipment expensed	143,276	23,667	364	24,031	167,307
Supplies	1,535,282	44,755	553	45,308	1,580,590
Consultants	1,122	13,298	1,989	15,287	16,409
General and administrative	25,935	102,324	150,664	252,988	278,923
Legal expenses	120,359	131,413	-	131,413	251,772
Other professional services	15,227	135,716	3,309	139,025	154,252
Rentals and leases	821,696	43,886	6,482	50,368	872,064
Repairs and maintenance	171,762	7,788	135	7,923	179,685
Utilities	28,955	39,373	1,461	40,834	69,789
Waste disposal	7,599	285	61	346	7,945
Hosting groups and promotions	5,491	8,319	25,488	33,807	39,298
Insurance	174,042	4,853	1,043	5,898	179,938
Miscellaneous expense	137,102	-	296	296	137,398
Moving expense	85,876	5,322	-	5,322	91,198
Scientific advisory board	165,600	-	-	-	165,600
Security	-	-	558	558	558
Travel and conference fees	80,800	101,200	816	102,016	182,816
FIP expenses	300,308	-	-	-	300,308
Depreciation and amortization	913,079	34,278	7,368	41,646	954,725
2011 Total Expenses	\$ 9,589,358	\$ 1,541,389	\$ 286,915	\$ 1,828,304	\$ 11,417,662
2011 % of Total	84%	13%	3%	16%	100%

See independent auditors' report.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Year Ended June 30, 2011

<u>Program Title/Federal Grantor/ Pass-through Grantor</u>	<u>CFDA #</u>	<u>Pass-through Grant or Contract 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	\$ 877,676
Baylor Research Institute	93.855	5U19AI057234-08	329,028
Case Western Reserve University	93.855	PO1AI076174	417,356
Case Western Reserve University	93.855	PO1AI076174	90,129
Emory University	93.855	5PO2A1080192-03	355,797
Fred Hutchinson Cancer Research Center	93.855	5U01A1068618-05	324,459
University of Washington	93.855	1R21AI087427-01	94,615
University of Capetown	93.855	1R01AI087915-01AI	149,601
ARRA - Social & Scientific Systems Inc	93.701	3U01AI068632-05S1	200,322
ARRA - University of Miami	93.701	3U01AI069477-04S1	7,584
ARRA - University of Miami	93.701	3P30AI073961-04S1	16,308
Total U.S. Department of Health and Human Services			<u>2,862,873</u>
Total Expenditures of Federal Awards			<u>\$ 2,862,873</u>
<u>State of Florida</u>			
Direct - Innovation Incentive Program	31.054		<u>6,922,803</u>
Total Expenditures of State Financial Assistance			<u>\$ 6,922,803</u>

See independent auditors' report.

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.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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
Vaccine and Gene Therapy Institute of Florida Corp.
Port St. Lucie, Florida**

We have audited the consolidated financial statements of Vaccine and Gene Therapy Institute of Florida Corp. (VGTI) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. 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.

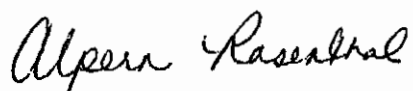
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 would not necessarily 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 consolidated 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 audits 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 Rasentral".

October 21, 2011



**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
Vaccine and Gene Therapy Institute of Florida Corp.
Port St. Lucie, Florida**

Compliance

We have audited the compliance on Vaccine and Gene Therapy Institute of Florida Corp.'s (VGTI's) 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, 2011. 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 audits.

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 audits 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 audits provide a reasonable basis for our opinion. Our audits do 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, 2011.

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 audits, 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.



October 21, 2011