

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

**Consolidated Financial Statements
and
Supplementary Information**

June 30, 2012

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

**Consolidated Financial Statements
and
Supplementary Information**

June 30, 2012

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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 statement of financial position of Vaccine and Gene Therapy Institute of Florida Corp. (VGTI), as of June 30, 2012, 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of VGTI as of June 30, 2012, 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.

As discussed in Note 2, VGTI changed its method of revenue recognition during the year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, 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 consolidated financial statements 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 consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

ALDERN ROSENTHAL

October 12, 2012

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statement of Financial Position

June 30	2012
ASSETS	
Cash and cash equivalents	\$ 33,973,821
Receivables	
Grants and contracts	3,107,111
Other	152,477
Cash held in escrow - Note 3	5,742,066
Prepaid expenses and other assets	408,521
Property and equipment - net - Note 4	56,642,685
Deferred financing costs - net - Note 5	6,459,518
	<hr/>
Total Assets	\$ 106,486,199
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	\$ 2,081,758
Deferred contract and grant revenue - Note 6	28,359,384
Long-term debt - Note 5	64,905,648
	<hr/>
Total Liabilities	95,346,790
	<hr/>
Net Assets	
Unrestricted	11,110,409
Temporarily restricted	29,000
	<hr/>
Total Net Assets	11,139,409
	<hr/>
Total Liabilities and Net Assets	\$ 106,486,199
	<hr/> <hr/>

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statement of Activities

For the Year Ended June 30	2012
CHANGES IN UNRESTRICTED NET ASSETS	
Revenues	
Grants and contracts	\$ 16,584,106
Other	657,735
Total Unrestricted Revenues	17,241,841
Expenses - Note 10	
Salaries and wages	6,560,610
Supplies and equipment expensed	2,122,489
Depreciation and amortization	1,697,668
Interest expense	1,528,113
Other expenses	989,505
General and administration	813,717
Rentals and leases	479,002
Utilities and waste disposal	397,468
Repairs and maintenance	359,840
Insurance	295,148
Travel and conference fees	289,444
FIP expenses	100,743
Total Expenses	15,633,747
Increase in Unrestricted Net Assets	1,608,094
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	29,000
Increase in Temporarily Restricted Net Assets	29,000
Total Increase in Net Assets	1,637,094
Net Assets - Beginning of year - as restated - Note 2	9,502,315
Net Assets - End of year	\$ 11,139,409

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

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Consolidated Statement of Cash Flows

For the Year Ended June 30	2012
Cash Provided by (Used for) Operating Activities	
Increase in net assets	\$ 1,637,094
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation and amortization	1,697,668
Changes in	
Grants and contracts receivable	(2,047,075)
Prepaid expenses and other assets	98,507
Accounts payable and accrued expenses	(4,434,051)
Deferred contract and grant revenues	<u>(2,230,464)</u>
Net Cash Used for Operating Activities	<u>(5,278,321)</u>
Cash Used for Investing Activities	
Purchase of property and equipment	<u>(18,120,607)</u>
Cash Provided by (Used for) Financing Activities	
Payments on long-term debt	(24,092)
Net withdraw of funds held in trustee escrow	<u>22,829,154</u>
Net Cash Provided by Financing Activities	<u>22,805,062</u>
Net Decrease in Cash and Cash Equivalents	(593,866)
Cash and Cash Equivalents - Beginning of year	<u>34,567,687</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 33,973,821</u></u>
Supplemental Schedule of Noncash Investing and Financing Activities	
Cash paid during the year for interest	<u><u>\$ 1,528,113</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.

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 in amounts which 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, 2012. Accounts receivable are stated at the amount management expects to collect from balances outstanding at such date. 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 will be immaterial. Therefore, no allowance for doubtful accounts was considered necessary at June 30, 2012.

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, are amortized over the life of the property financed (forty years) using the straight-line method. Amortization began in January 2012 when the associated building under construction was 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 forty 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 statement of activities. 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 (Continued)

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 non-profit 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)

L. Income Taxes (Continued)

Accounting principles generally accepted in the United States of America require VGTI's management to evaluate tax positions taken by VGTI and recognize a tax liability (or asset) if VGTI has taken a position that is uncertain. An uncertain position is defined as one in which there is a 50% or greater likelihood that the position will not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by VGTI and has concluded that, as of June 30, 2012, there are no uncertain tax positions taken or expected to be taken. VGTI has recognized no interest or penalties related to uncertain tax positions. VGTI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes all tax years since June 30, 2008 remain open for income tax examinations.

M. Recently Issued Accounting Standard

In May 2011, the Financial Accounting Standards Board issued guidance related to fair value measurements. These updates include clarifications regarding existing fair value measurement principles and disclosure requirements. The guidance also addresses additional disclosures regarding the valuation process used by the entity in Level 3 measurements. These updates are effective for interim and annual periods beginning after December 15, 2011. VGTI does not expect the implementation of this guidance to have a material impact on its consolidated financial statements.

N. Consideration of Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through October 12, 2012, the day the consolidated financial statements were approved and authorized for issue.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 2 - Restatement

During the year ended June 30, 2012, VGTI determined that it would convert from one acceptable accounting principle to another related to its policy for revenue recognition under its funding agreement with the state of Florida, Executive Office of the Governor's Office of Tourism, Trade and Economic Development (OTTED) (Note 9). Management believes the newly adopted principle better reflects the intent of the OTTED funding and current management's operational philosophy, and is preferable to the previously used principle. VGTI accounted for this as a change in accounting principle and applied the changes on a retrospective basis.

The OTTED funds have been provided to acquire scientific equipment and also to supplement the operations of VGTI as it develops its research capabilities in Florida, develops a work force and pays down its bond debt (Note 5). OTTED has funded the grant commitment in a series of upfront payments which has resulted in deferred revenue. During prior fiscal years, VGTI recognized the OTTED revenue based upon operating costs and depreciation expense for equipment acquired with OTTED funds. Management determined it would be preferable to recognize revenue for these funds based on amounts spent for operating costs and property and equipment additions that were capitalized. Management believes this better reflects the intent of the OTTED agreement, since deferred revenue is more reflective of the actual cash still held and pledged under the OTTED agreement.

Net assets as of July 1, 2011 were restated to reflect a decrease in deferred revenue of approximately \$9,332,000 as a result of this change in accounting principle.

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 5). 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>2012</u>
Project fund	\$ 30,805
Interest reserve	1,575,081
Debt service reserve	<u>4,136,180</u>
Total cash held in escrow	<u>\$5,742,066</u>

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2012:

Land and land improvements	\$ 5,341,021
Buildings	48,345,135
Equipment and furniture	<u>6,037,331</u>
	59,723,487
Less: Accumulated depreciation	(<u>3,080,802</u>)
	<u>\$56,642,685</u>

Note 5 - Long-term Debt

Long-term debt consists of the following at June 30, 2012:

Series 2010 Research Facilities Revenue Bonds	\$64,035,000
Special assessment district loan	<u>1,641,359</u>
	65,676,359
Unamortized original issue discount	(<u>770,711</u>)
	<u>\$64,905,648</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 for or reimbursing the costs of certain land and land development costs of property located in the City and the approximately 99,000 gross square foot building which has been constructed on the land which is being used for 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 up to November 1, 2012, fund a debt service reserve, fund capitalized interest and pay the costs of issuance.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 5 - Long-term Debt (Continued)

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
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 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>
2013	\$ 1,040,000
2014	1,072,000
2015	1,118,000
2016	1,160,000
2017	1,222,000
Thereafter	<u>59,293,000</u>
Long-term debt	<u>\$64,905,000</u>

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 6 - Deferred Contract and Grant Revenue

Deferred revenue consists of the following as of June 30, 2012:

State of Florida - Note 9	\$27,857,200
FIP marketing revenue	47,296
Other	<u>454,888</u>
Total deferred contract and grant revenue	<u>\$28,359,384</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 each 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 \$246,000 for the year ended June 30, 2012.

Note 8 - 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. Management is not aware of any outstanding claims or legal actions.

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 their 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 such requests for reimbursement from any funding sources.

VACCINE AND GENE THERAPY INSTITUTE OF FLORIDA CORP.

Notes to the Consolidated Financial Statements (Continued)

Note 9 - 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 funding agreement). Under the funding agreement, VGTI has received a total of \$60,000,000 to establish a state-of-the-art vaccine and gene therapy research institution in Florida. Revenue recognized from the funding agreement amounted to approximately \$7,100,000 during the year ended June 30, 2012.

In order to receive the funds, VGTI submitted funding requests, together with various progress reports to OTTED. In addition, VGTI 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. Unspent funds are held in a pledged account and totaled approximately \$27,900,000 at June 30, 2012. Should VGTI cease to exist, any unspent funds would be returned to the state.

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

Note 10 - Expenses

Expenses by functional classifications for the year ended June 30, 2012 were as follows:

Program services	\$11,970,080	77%
Administration	3,104,921	19
Fundraising/development	<u>558,746</u>	<u>4</u>
Total expenses	<u>\$15,633,747</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, 2012

	Program Services	Management and General	Fundraising and Development	Total Supporting Services	Total
Salaries and Wages	\$ 4,386,599	\$ 2,055,562	\$ 118,449	\$ 2,174,011	\$ 6,560,610
Supplies and Equipment Expensed					
Supplies	1,908,893	42,238	770	43,008	1,951,901
Equipment expensed	133,985	33,421	3,182	36,603	170,588
	<u>2,042,878</u>	<u>75,659</u>	<u>3,952</u>	<u>79,611</u>	<u>2,122,489</u>
Depreciation and Amortization	<u>1,642,322</u>	<u>50,026</u>	<u>5,320</u>	<u>55,346</u>	<u>1,697,668</u>
Interest Expense	<u>1,475,901</u>	<u>50,050</u>	<u>2,162</u>	<u>52,212</u>	<u>1,528,113</u>
Other Expenses					
Miscellaneous expense	334,940	99,193	4,063	103,256	438,196
Hosting groups and promotions	7,592	26,722	186,498	213,220	220,812
Scientific advisory board	-	165,600	-	165,600	165,600
Moving expense	44,388	20,178	-	20,178	64,566
Security	61,797	1,920	83	2,003	63,800
Outpatient care costs	36,531	-	-	-	36,531
	<u>485,248</u>	<u>313,613</u>	<u>190,644</u>	<u>504,257</u>	<u>989,505</u>
General and Administrative					
General and administrative	116,322	143,705	178,577	322,282	438,604
Consultants	26,947	94,204	51,901	146,105	173,052
Legal expenses	87,110	30,339	-	30,339	117,449
Other professional services	5,005	79,155	452	79,607	84,612
	<u>235,384</u>	<u>347,403</u>	<u>230,930</u>	<u>578,333</u>	<u>813,717</u>
Rentals and Leases	<u>458,984</u>	<u>16,784</u>	<u>3,234</u>	<u>20,018</u>	<u>479,002</u>
Utilities and Waste Disposal					
Utilities	320,769	63,572	1,395	64,967	385,736
Waste disposal	1,740	9,990	2	9,992	11,732
	<u>322,509</u>	<u>73,562</u>	<u>1,397</u>	<u>74,959</u>	<u>397,468</u>
Repairs and Maintenance	<u>353,844</u>	<u>5,707</u>	<u>289</u>	<u>5,996</u>	<u>359,840</u>
Insurance	<u>279,145</u>	<u>15,257</u>	<u>746</u>	<u>16,003</u>	<u>295,148</u>
Travel and Conference Fees	<u>186,523</u>	<u>101,298</u>	<u>1,623</u>	<u>102,921</u>	<u>289,444</u>
FIP Expenses	<u>100,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,743</u>
2012 Total Expenses	<u>\$ 11,970,080</u>	<u>\$ 3,104,921</u>	<u>\$ 558,746</u>	<u>\$ 3,663,667</u>	<u>\$ 15,633,747</u>
2012 % of Total	<u>77%</u>	<u>19%</u>	<u>4%</u>	<u>23%</u>	<u>100%</u>

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, 2012

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			
University of Arizona	93.000	HHSN 272201100017C	\$ 362,197
Oregon Health and Science University	94.279	1DP1DA028871	234,178
National Institutes of Health	94.279	5 DP1 DA028871-04	857,587
Case Western Reserve University	93.855	P01 AI 076174	317,541
Emory University	93.855	5 P01 AI 080192-04	224,534
Baylor Research Institute	93.855	5 U19 AI 057234-09	265,418
Case Western Reserve University	93.855	P01 AI 076174	11,341
Fred Hutchinson Cancer Research Center	93.855	5U01A1068618-05	184,763
Fred Hutchinson Cancer Research Center	93.855	5U01A1068618-05	58,539
Fred Hutchinson Cancer Research Center	93.855	5UM1AI068618-06	114,796
University of Washington	93.855	1 R21 AI 087427-01	117,195
University of Cape Town	93.855	1 R01 AI 087915-01AI	352,968
Oregon Health and Science University	93.855	1 P01 AI094417-01	144,037
Beth Israel Deaconess Medical Center, Inc.	93.855	1 P01 AI095985-01	247,252
The Regents of the University of California	93.855	U19 AI096109	274,402
The Regents of the University of California	93.855	U19 AI096109	320,646
ARRA - Social & Scientific Systems Inc	93.701	3U01AI068632-05S1	40,622
ARRA - University of Miami	93.701	3 U01 AI069477-04S1	26,106
ARRA - University of Miami	93.701	3 P330 AI073961-04S1	68,383
Total U.S. Department of Health and Human Services			4,222,505
<u>U.S. Department of Commerce</u>			
Economic Adjustment Assistance	11.307	04-79-06294	2,588,217
Total Expenditures of Federal Awards			\$6,810,722
<u>State of Florida</u>			
Direct - Innovation Incentive Program	31.054		\$7,053,760
Total Expenditures of State Financial Assistance			\$7,053,760

See independent auditors' report.

VACCINE AND GENE THERAPY INSTITUTE OF 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, 2012

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
Federal - U.S. Department of Commerce	11.307
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, 2012

B. Financial Statement Findings

None

C. Federal and State Award Findings and Questioned Costs

None

D. Summary Schedule of Prior Audit Findings

None to be reported

E. Management Letter in Accordance With Florida Statutes

There are no items related to state financial assistance that are required to be reported in a management letter in accordance with Florida statutes.

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, 2012, and have issued our report thereon dated October 12, 2012. 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

Management of VGTI is responsible for establishing and maintaining effective 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 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 black ink that reads "ALDERN ROSENTHAL". The letters are written in a cursive, slightly slanted style.

October 12, 2012

**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 of Vaccine and Gene Therapy Institute of Florida Corp. (VGTI) 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, 2012. 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, 2012.

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.

Handwritten signature in black ink, reading "ALDERN ROSENTHAL".

October 12, 2012