

**Oak Crest Institute of Science**

**Financial Statements**

**As of and for the Year Ended December 31, 2018**

**and**

**Independent Auditor's Report**

**Oak Crest Institute of Science**  
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## Independent Auditor's Report

Board of Directors  
Oak Crest Institute of Science

### Report on the Financial Statements

We have audited the accompanying financial statements of Oak Crest Institute of Science (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Crest Institute of Science as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, on our consideration of Oak Crest Institute of Science's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oak Crest Institute of Science's internal control over financial reporting and compliance.

*Lawrence R. Mitchell & Company*

Lawrence R. Mitchell & Company  
Certified Public Accountants  
*A Professional Corporation*  
El Segundo, California

September 12, 2019

**Oak Crest Institute of Science  
Statement of Financial Position  
December 31, 2018**

**Assets**

| <b>Current assets:</b>         | <b>Amount</b>              |
|--------------------------------|----------------------------|
| Cash                           | \$ 206,485                 |
| Receivables                    | 595,724                    |
| Prepaid expenses               | 53,990                     |
| Total current assets           | <u>856,199</u>             |
| <b>Property and equipment:</b> |                            |
| Property and equipment, net    | 4,277,525                  |
| <b>Other assets:</b>           |                            |
| Security deposits              | <u>13,520</u>              |
| Total assets                   | <u><u>\$ 5,147,244</u></u> |

**Liabilities and Net Assets**

|  |                            |
|--|----------------------------|
| <b>Current liabilities:</b>                |                            |
| Accounts payable                           | \$ 272,847                 |
| Line of credit                             | 75,000                     |
| Accrued and other current liabilities      | 70,327                     |
| Current portion of long-term notes payable | 93,139                     |
| Current portion of capital lease payable   | 40,179                     |
| Total current liabilities                  | <u>551,492</u>             |
| <b>Long-term liabilities:</b>              |                            |
| Notes payable                              | \$ 2,049,762               |
| Capital lease payable                      | 151,757                    |
| Total long-term liabilities                | <u>2,201,519</u>           |
| Total liabilities                          | 2,753,011                  |
| <b>Net assets:</b>                         |                            |
| Without donor restrictions                 | 2,394,233                  |
| With donor restrictions                    | -                          |
| Total net assets                           | <u>2,394,233</u>           |
| Total liabilities and net assets           | <u><u>\$ 5,147,244</u></u> |

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

**Oak Crest Institute of Science**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2018**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Amount       |
|--|-------------------------------|----------------------------|--------------|
| <b>Public support:</b>                             |                               |                            |              |
| Contributions and grants                           | \$ 124,132                    | \$ -                       | \$ 124,132   |
| Donated goods                                      | 52,357                        | -                          | 52,357       |
| Total public support                               | 176,489                       | -                          | 176,489      |
| <b>Revenue and other income:</b>                   |                               |                            |              |
| Program fees and contract service revenue          | 4,225,697                     | -                          | 4,225,697    |
| Consulting fees                                    | 495,161                       | -                          | 495,161      |
| Miscellaneous income                               | 10,550                        | -                          | 10,550       |
| Total revenue and other income                     | 4,731,408                     | -                          | 4,731,408    |
| <b>Net assets released from restrictions:</b>      |                               |                            |              |
| Restrictions satisfied by payments                 | 100,000                       | (100,000)                  | -            |
| Total public support, revenue,<br>and other income | 5,007,897                     | (100,000)                  | 4,907,897    |
| <b>Operating expenses:</b>                         |                               |                            |              |
| Program services                                   | 4,220,277                     | -                          | 4,220,277    |
| Management and general                             | 621,778                       | -                          | 621,778      |
| Total operating expenses                           | 4,842,055                     | -                          | 4,842,055    |
| Net increase (decrease) in net assets              | 165,842                       | (100,000)                  | 65,842       |
| <b>Net assets:</b>                                 |                               |                            |              |
| Net assets, beginning of year                      | 2,323,209                     | 100,000                    | 2,423,209    |
| Prior period adjustment                            | (94,818)                      | -                          | (94,818)     |
| Net assets, beginning of year (as restated)        | 2,228,391                     | 100,000                    | 2,328,391    |
| Net assets, end of year                            | \$ 2,394,233                  | \$ -                       | \$ 2,394,233 |

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

**Oak Crest Institute of Science  
Statement of Functional Expenses  
For the Year Ended December 31, 2018**

|   | <b>Program<br/>Services</b> | <b>Mgt. &amp;<br/>General</b> | <b>Total</b>        |
|---|-----------------------------|-------------------------------|---------------------|
| Salaries and wages                      | \$ 1,021,977                | \$ 183,072                    | \$ 1,205,049        |
| Payroll taxes and employee benefits     | 208,964                     | 34,468                        | 243,432             |
| Conferences and meetings                | 23,974                      | 100                           | 24,074              |
| Dues and subscription                   | 4,083                       | 4,595                         | 8,678               |
| Occupancy                               | 51,835                      | 51,877                        | 103,712             |
| Furniture and equipment                 | 24,314                      | 2,512                         | 26,826              |
| Insurance                               | 6,773                       | 49,017                        | 55,790              |
| Interest expense                        | 115,714                     | 9,662                         | 125,376             |
| Miscellaneous                           | 11,286                      | 4,136                         | 15,422              |
| Research project                        | 399,868                     | -                             | 399,868             |
| Printing and reproduction               | 6,009                       | 8,937                         | 14,946              |
| Professional fees and contract services | 115,169                     | 191,327                       | 306,496             |
| Subcontractors                          | 1,537,947                   | 2,320                         | 1,540,267           |
| Repairs and maintenance                 | 35,949                      | 4,687                         | 40,636              |
| Travel                                  | 45,715                      | 12,631                        | 58,346              |
| Utilities                               | 52,992                      | 17,809                        | 70,801              |
| Fellowships                             | 83,094                      | -                             | 83,094              |
| Postage and delivery                    | 18,631                      | 80                            | 18,711              |
| Computer accessories and software       | 11,681                      | 6,897                         | 18,578              |
| Supplies                                | 98,602                      | 17,198                        | 115,800             |
| Depreciation                            | 345,700                     | 20,453                        | 366,153             |
|   | <u>\$ 4,220,277</u>         | <u>\$ 621,778</u>             | <u>\$ 4,842,055</u> |
|   | <u>87%</u>                  | <u>13%</u>                    | <u>100%</u>         |

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

**Oak Crest Institute of Science**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

| <b>Cash flows from operating activities:</b>   | <b>Amount</b> |
|--|---------------|
| Increase in net assets   | \$ 65,842     |
| <b>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</b> |               |
| Depreciation expense   | 366,153       |
| Donated software   | (52,357)      |
| <b>(Increase) decrease in:</b>   |               |
| Receivables  | (96,323)      |
| Prepaid expenses   | 25,542        |
| <b>Increase (decrease) in:</b>   |               |
| Accounts payable   | 1,539         |
| Accrued and other current liabilities  | (83,746)      |
| Total adjustments  | 160,808       |
| Net cash provided by operating activities  | 226,650       |
| <b>Cash flows from investing activities:</b>   |               |
| Purchases of property and equipment  | (351,313)     |
| Deposits returned  | 25,678        |
| Net cash used by investing activities  | (325,635)     |
| <b>Cash flows from financing activities:</b>   |               |
| Net borrowings from line of credit   | 30,748        |
| Repayments of long-term notes payable  | (126,147)     |
| Repayments of capital lease payable  | (25,985)      |
| Net cash used by financing activities  | (121,384)     |
| Net decrease in cash   | (220,369)     |
| Cash at beginning of year  | 426,854       |
| Cash at end of year  | \$ 206,485    |

**Supplemental disclosures of cash flow information:**

*Cash paid during year for:*

|              |            |
|--------------|------------|
| Interest     | \$ 125,376 |
| Income taxes | \$ -       |

**Supplemental disclosures of noncash investing and financing activities:**

During 2018, the Company entered into a capital lease agreement with a lessor for \$217,922, in connection with the lease of research equipment (see Note 8).

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

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**1. Summary of significant accounting policies**

This summary of significant accounting policies of Oak Crest Institute of Science, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements.

***Nature of the Organization***

Oak Crest Institute of Science is a non-profit public benefit corporation established in 1998. The Organization is a unique academic research and education center, where Faculty, postdoctoral scholars, graduate, and undergraduate students work together on scientific questions of high societal relevance, primarily in medicinal and environmental science. The research involves basic and applied science, for example understanding the roles of microbes in extreme environmental niches and the development of novel intravaginal rings for HIV prevention in resource-limited regions. The rigorous research activities also serve as an educational platform to engage young aspiring scientists, particularly from underrepresented groups, in science, technology, engineering, and mathematics. The Organization's support comes primarily from federal funding.

***Basis of accounting***

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

***Cash and cash equivalents***

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. There were no cash equivalents at December 31, 2018.

***Net Assets***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *With Donor Restrictions:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets permit the Organization to use all of the income earned on related investments for general specific purposes. Net assets with donor restrictions also include the net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- *Without Donor Restrictions:* Net assets not subject to donor-imposed stipulations. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions at December 31, 2018.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**1. Summary of significant accounting policies (continued)**

***Contributions***

Contributions received are recorded as increases in net assets without donor restrictions or net asset with donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

***Third party reimbursements***

Contract reimbursements, including retroactive adjustments under reimbursement agreements, are reported at the estimated net realizable amounts from third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

***Receivables***

Contributions, grants, and cost reimbursement contract receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance for uncollectible accounts at December 31, 2018.

***Credit risk***

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of temporary cash investments and receivables.

***Temporary cash investments***

The Organization places its cash and temporary cash investments with high credit quality institutions. The balances in these accounts frequently exceed the FDIC federally insured amount of \$250,000. The Organization has no uninsured cash deposits at December 31, 2018.

***Receivables***

Credit risk with respect to receivables is also limited due to the Organization's interaction with government entities on a contractual basis; and the fact that the Organization's grants receivable are from reputable foundations.

***Property and equipment***

Property and equipment are recorded at cost. The Organization's policy is to capitalize assets with a cost of \$1,000 or more, and with estimated useful lives in excess of one year.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**1. Summary of significant accounting policies (continued)**

***Property and equipment (continued)***

Expenditures for major renewal and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in the statement of activities as a change in restricted or unrestricted net assets, as appropriate.

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated (amortized) over the lesser of the lengths of the related leases or the estimated useful lives of the assets. Depreciation expense is computed using the straight-line method over the respective estimated useful lives of assets, as follows:

|                           |              |
|---------------------------|--------------|
| Building                  | 39 Years     |
| Building and improvements | 5 - 15 Years |
| Leasehold improvements    | 4 Years      |
| Machinery and equipment   | 5 - 7 Years  |
| Office equipment          | 5 - 7 Years  |
| Software                  | 5 Years      |

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies with donor restrictions net assets to without donor restrictions net assets at that time.

Expenditures for equipment reimbursed by grants from government agencies are capitalized. Even though the equipment is owned by the grantor agency, management believes that it is probable that the Organization will be permitted to keep the assets when the contract terminates.

***Fair value measurements***

The carrying amounts of the Company's financial instruments, including cash, receivables, accounts payable, line of credit and accrued and other current liabilities approximate their respective fair values due to their short-term nature. The carrying amount of the Organization's long term notes and capital lease payable approximate their respective fair values based on interest rates available to the Organization for similar debt instruments and similar remaining maturities.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**1. Summary of significant accounting policies (continued)**

***Income tax status***

The Organization is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1986 and Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

***Donated goods and services***

Contributions of noncash assets are recorded at their fair values in the period received. The Organization recognizes donated services and materials, that create or enhance nonfinancial assets, or that require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The Organization receives donated goods used in connection with its service programs. During the year ended December 31, 2018, the Organization received software valued at \$52,357.

***Functional allocation of expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to specific functional areas of the Organization are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on the number of employees involved or the amount of time spent. Functional expenses are expenses of the year in which incurred and, accordingly, are charged to operations on a current basis.

***Estimates***

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

***New accounting standards***

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-4, *Presentation of Financial Statements for Not-For-Profit Entities*. In addition to changes in terminology used to describe the categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**1. Summary of significant accounting policies (continued)**

***Subsequent events***

The Organization has evaluated subsequent events through September 12, 2019 the date which the financial statements were available to be issued. There were no subsequent events noted that would require adjustment to or disclosure in these financial statements.

**2. Receivables**

Following is a summary of receivables at December 31, 2018:

|  | <b>Amount</b> |
|--|---------------|
| Expense reimbursement contract receivables | \$ 595,724    |
| Less: Allowance for bad debt               | -             |
|  | \$ 595,724    |

**3. Prepaid expenses**

Following is a summary of prepaid expenses at December 31, 2018:

|                        | <b>Amount</b> |
|------------------------|---------------|
| Prepaid insurance      | \$ 28,344     |
| Prepaid legal expenses | 21,443        |
| Other prepayments      | 4,203         |
|                        | \$ 53,990     |

**4. Property and equipment**

Following is a summary of property and equipment – at cost, less accumulated depreciation, at December 31, 2018:

|                                    | <b>Property and<br/>equipment</b> | <b>Capital lease<br/>equipment</b> | <b>Total</b> |
|------------------------------------|-----------------------------------|------------------------------------|--------------|
| Land                               | \$ 190,848                        | \$ -                               | \$ 190,848   |
| Building                           | 3,235,971                         | -                                  | 3,235,971    |
| Building improvements              | 197,832                           | -                                  | 197,832      |
| Leasehold improvements             | 97,257                            | -                                  | 97,257       |
| Machinery and equipment            | 1,321,095                         | -                                  | 1,321,095    |
| Office equipment                   | 8,021                             | -                                  | 8,021        |
| Software                           | 52,358                            | -                                  | 52,358       |
| Equipment held under capital lease | -                                 | 217,922                            | 217,922      |
|                                    | 5,103,382                         | 217,922                            | 5,321,304    |
| Less: Accumulated depreciation     | (1,007,459)                       | (36,320)                           | (1,043,779)  |
|                                    | \$ 4,095,923                      | \$ 181,602                         | \$ 4,277,525 |

Depreciation expense charged to operations \$366,153 for the year ended December 31, 2018.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**5. Line of credit**

Under the terms of a line of credit agreement with a bank, the Organization may borrow up to \$100,000 at an interest rate of 8.5% through October 30, 2019. This agreement renews annually and is secured by a UCC filing on substantially all assets of the Organization.

At December 31, 2018, the Organization had \$25,000 of unused line of credit, in connection with this agreement to be drawn upon as needed. Interest expense, in connection with this agreement, was \$3,035 for the year ended December 31, 2018.

**6. Accrued and other current liabilities**

Following is a summary of accrued and other current liabilities at December 31, 2018:

|                            | <b>Amount</b> |
|----------------------------|---------------|
| Accrued vacation           | \$ 46,674     |
| Insurance contract payable | 12,842        |
| Accrued interest payable   | 9,653         |
| Other current liabilities  | 1,158         |
|                            | \$ 70,327     |

**7. Notes payable**

Following is a summary of notes payable at December 31, 2018:

|  | <b>Amount</b> |
|--|---------------|
| 5.5% - 5.75% note payable to a bank in monthly installments of \$5,530 to \$5,674, including principal and interest, through August 2019, and one final principal payment of \$733,775. This note is secured by the land and building of the Organization. | \$ 864,330    |
| 5.5% note payable to bank in monthly installments of \$7,844, including principal and interest, through September 2022, and one final principal payment of \$1,019,219 in October 2022. This note is secured by the land and building of the Organization. | 1,151,370     |
| 5.5% note payable to a bank in monthly installments of \$3,821, including principal and interest, through December 2021. This note is secured by a solar electric system.  | 127,201       |
| Subtotal   | 2,142,901     |
| Less: Current maturities included in current liabilities   | (93,139)      |
|  | \$ 2,049,762  |

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**7. Notes payable (continued)**

Following are maturities of the long-term notes payable for each of the next five years and in the aggregate:

| <i>Year ending December 31,</i> | <b>Amount</b>       |
|---------------------------------|---------------------|
| 2019                            | \$ 93,139           |
| 2020                            | 97,502              |
| 2021                            | 103,414             |
| 2022                            | 1,074,420           |
| 2023                            | 25,041              |
| Thereafter                      | 749,385             |
|                                 | <u>\$ 2,142,901</u> |

**8. Capital lease**

The company is the lessee of research equipment under a capital lease agreement expiring in March 2023. The asset and liability under a capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is being depreciated over the lower of the related lease term or its estimated productive life.

Depreciation of the asset under capital lease was \$36,320 for the year ended December 31, 2018, which is included in depreciation expense.

Minimum future lease payments under capital leases as of December 31, 2018 for each of the next five years and in the aggregate are:

| <i>Year ending December 31,</i>            | <b>Amount</b>     |
|--|-------------------|
| 2019                                       | \$ 50,733         |
| 2020                                       | 50,733            |
| 2021                                       | 50,733            |
| 2022                                       | 50,733            |
| 2023                                       | 12,685            |
| Total minimum lease payments               | 215,617           |
| Less: Amount representing interest         | (23,681)          |
| Present value of net minimum lease payment | <u>\$ 191,936</u> |

Interest rate on capitalized lease approximates 6.2% and is imputed based on the lower of Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. Interest expense, in connection with the capital lease, was \$12,202 for the year ended December 31, 2018.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**9. Leases**

The Organization leases two operations facilities under non-cancellable operating lease agreements. Minimum future rental payments under long-term operating leases having initial terms in excess of one year as of December 31, 2018, for each of the next four years, and in the aggregate are:

| <i>Year ending December 31, 2018</i> | <b>Amount</b>     |
|--------------------------------------|-------------------|
| 2019                                 | \$ 118,400        |
| 2020                                 | 85,191            |
| 2021                                 | 34,405            |
| 2022                                 | 28,411            |
| Thereafter                           | -                 |
|                                      | <u>\$ 266,407</u> |

Following is a summary of long-term operating leases and renewal options at December 31, 2018:

| <b>Description<br/>of Property</b> | <b>Minimum</b>           |                            | <b>Renewal Option</b> |             |
|------------------------------------|--------------------------|----------------------------|-----------------------|-------------|
|                                    | <b>Annual<br/>Rental</b> | <b>Expiration<br/>Date</b> | <b>Term</b>           | <b>Rent</b> |
| Operations facility                | \$ 38,840                | January 2020               | 2 years               | 3%          |
| Operations facility                | 79,560                   | April 2022                 | N/A                   | N/A         |
|                                    | <u>\$ 118,400</u>        |                            |                       |             |

In the normal course of business, operating leases are generally renewed or replaced by other leases.

Rental expense under all operating leases totaled \$103,712 for the year ended December 31, 2018.

**10. Tax deferred annuity plan**

The Organization provides a tax-deferred annuity plan under Section 401(k) of the Internal Revenue Code (IRC). Employees may make contributions to the plan up to the maximum amount allowed by the IRC. The plan requires the Organization to match 1% to 4% of the employee salaries. During the year ended December 31, 2018, the Organization made contributions to the plan of \$44,136.

**11. Concentrations**

*December 31, 2018*

The Organization received support from one contract agency during 2018, which constituted 77% of total public support, revenue, and other income. At December 31, 2018, the balance receivable from the contract agency was \$432,928.

**Oak Crest Institute of Science**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2018**

**12. Liquidity and reserves**

The Organization has a policy to manage its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year.

|   | <b>Amount</b> |
|---|---------------|
| Total financial assets  | \$ 802,209    |
| Less: financial assets unavailable for general expenditure within one year due to purpose and time restrictions | -             |
| Financial assets available to meet cash needs for general expenditure within one year                           | \$ 802,209    |

**13. Commitments and contingencies**

*Federal funding*

The Organization has received federal funds for specific purposes that are subject to compliance requirements. The Organization is subject to review and audit by such grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements and/or receivable adjustments would not be material.

**14. Other matters**

*Prior period adjustment*

Beginning net assets was decreased by \$94,818 to correct a prior error in accumulated depreciation for research equipment.

*Litigation*

In November 2016, a complaint was filed against the Organization for alleged misappropriation of trade secrets under the Defend Trade Secrets Act and California Uniform Trade Secrets Act, and breach of contract. The final trial occurred in December 2017 and the Organization was determined to have not misappropriated trade secrets or breach of contract. The arbitration award was issued on June 12, 2018.

The Organization was engaged in legal cases that had risen in the normal course of its operations. Management believes that the outcome of these cases will not have a material adverse effect on the financial position of the Company. No additional amounts need to be accrued in the financial statements in connection with these legal cases.

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title                             | Federal<br>CFDA # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>Subrecipients |
|--|-------------------|--------------------------|-------------------------|----------------------------------|
| <b>Federal awards</b>  |                   |                          |                         |                                  |
| <u>Research and development cluster</u>  |                   |                          |                         |                                  |
| <i>Department of Health &amp; Human Services</i>                                     |                   |                          |                         |                                  |
| Direct programs:   |                   |                          |                         |                                  |
| National Institute of Health   |                   |                          |                         |                                  |
| Systematic Development of Antiretroviral   |                   |                          |                         |                                  |
| Intravaginal Rings for HIV Prevention *  | 93.855            | U19AI113048              |                         |                                  |
| HIV Prophylaxis Core A   |                   |                          | \$ 182,826              | \$ -                             |
| HIV Prophylaxis Core B   |                   |                          | 256,939                 | -                                |
| HIV Prophylaxis Project 1  |                   |                          | 437,350                 | 154,001                          |
| HIV Prophylaxis Project 2  |                   |                          | 508,067                 | 186,316                          |
| HIV Prophylaxis Project 3  |                   |                          | 760,417                 | 568,189                          |
| HIV Prophylaxis Project 4  |                   |                          | 608,352                 | 438,882                          |
| HIV Prophylaxis Project 5  |                   |                          | 346,254                 | -                                |
| Systemic Sustained Release Delivery of<br>Antiretroviral Agents for HIV Prevention * | 93.855            | 5R01AI120748             | 719,627                 | 191,201                          |
| Total direct programs  |                   |                          | 3,819,832               | 1,538,589                        |

*(continued next page)*

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title                                   | Federal<br>CFDA # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>Subrecipients |
|--|-------------------|--------------------------|-------------------------|----------------------------------|
| <i>(continued from previous page)</i>  |                   |                          |                         |                                  |
| <b>Federal awards</b>  |                   |                          |                         |                                  |
| Pass-through programs:   |                   |                          |                         |                                  |
| University of Massachusetts  |                   |                          |                         |                                  |
| Novel Immunotherapeutics Against Multidrug-Resistant<br>Neisseria Gonorrhoea *             | 93.855            | R01AI132296              | \$ 82,003               | \$ -                             |
| Sialic Acid Analogs as Novel Immunotherapeutics<br>Against Multidrug-Resistant Gonorrhea * | 93.855            | R33AI119327              | 64,781                  | -                                |
| Gonorrhea and HIV Prevention with Intravaginal Ring<br>Drug Delivery *                     | 93.855            | R61AI136007              | 8,533                   | -                                |
| Harvard University - Dana Farber Cancer Institute, Inc.                                    |                   |                          |                         |                                  |
| Prevention of HIV-1 Transmission by Small-Molecule<br>CD4-Mimetic Entry Inhibitors *       | 93.855            | R01AI134494              | 152,251                 | -                                |
| Tulane University  |                   |                          |                         |                                  |
| Testing Novel Microbicide in Sustained Release Formulations *                              | 93.855            | R01AI131433              | 93,538                  | -                                |
| Stanford University  |                   |                          |                         |                                  |
| Estrogen Reverses Progestin-Mediated<br>Loss of Genital Mucosal Barrier Function *         | 93.865            | R01HD094634              | 2,164                   | -                                |
| Total pass-through programs  |                   |                          | 403,270                 | -                                |
| Total federal awards   |                   |                          | \$ 4,223,102            | \$ 1,538,589                     |

*\*Denotes a major federal program (Research and Development cluster)*

See accompanying notes to schedule of expenditures of federal awards.

**Oak Crest Institute of Science**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

**1. Basis of presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Oak Crest Institute of Science, Inc. under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Oak Crest Institute of Science, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Oak Crest Institute of Science, Inc.

**2. Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. Awards to subrecipients**

Following is the summary of subrecipients for the year ended December 31, 2018:

| <b>Subrecipient</b>                  | <b>U19AI<br/>113048</b> | <b>5R01AI<br/>120748</b> | <b>Total</b>        |
|--------------------------------------|-------------------------|--------------------------|---------------------|
| CDC Foundation                       | \$ 28,817               | \$ -                     | \$ 28,817           |
| John Hopkins University              | 88,716                  | -                        | 88,716              |
| Scripps Research Institute           | 276,948                 | 130,922                  | 407,870             |
| The Miriam Hospital                  | 191,583                 | -                        | 191,583             |
| University of California San Diego   | 86,275                  | -                        | 86,275              |
| University of California Los Angeles | 69,550                  | -                        | 69,550              |
| University of Texas Medical Branch   | 540,213                 | -                        | 540,213             |
| Vanderbilt University                | 65,286                  | 60,279                   | 125,565             |
|                                      | <b>\$ 1,347,388</b>     | <b>\$ 191,201</b>        | <b>\$ 1,538,589</b> |

**4. Indirect cost rate**

Oak Crest Institute of Science, Inc. has elected *not* to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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Board of Directors  
Oak Crest Institute of Science

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Oak Crest Institute of Science, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Oak Crest Institute of Science's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oak Crest Institute of Science's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oak Crest Institute of Science's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oak Crest Institute of Science's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-001.

## Oak Crest Institute of Science's Response to Findings

Oak Crest Institute of Science's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oak Crest Institute of Science response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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



Lawrence R. Mitchell & Company  
Certified Public Accountants  
*A Professional Corporation*  
El Segundo, California

September 12, 2019

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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE *UNIFORM GUIDANCE***

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Board of Directors  
Oak Crest Institute of Science

**Report on Compliance for Each Major Federal Program**

We have audited Oak Crest Institute of Science’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Oak Crest Institute of Science’s major federal programs for the year ended December 31, 2018. Oak Crest Institute of Science’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of Oak Crest Institute of Science’s major federal programs based on our audit of the types of compliance requirements referred to above. 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 program occurred. An audit includes examining, on a test basis, evidence about Oak Crest Institute of Science’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 on compliance for each major federal program. However, our audit does not provide a legal determination of Oak Crest Institute of Science’s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Oak Crest Institute of Science complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

Oak Crest Institute of Science's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oak Crest Institute of Science's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control over Compliance***

Management of Oak Crest Institute of Science is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Oak Crest Institute of Science's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Oak Crest Institute of Science's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 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 program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

Oak Crest Institute of Science's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oak Crest Institute of Science's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Lawrence R. Mitchell & Company*

Lawrence R. Mitchell & Company  
Certified Public Accountants  
*A Professional Corporation*  
El Segundo, California

September 12, 2019

**Oak Crest Institute of Science  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2018**

**A. Summary of audit results**

*Financial statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?      Yes   x   No
- Significant deficiency(ies) identified?   x   Yes      None reported

Noncompliance material to financial statements noted?      Yes   x   No

*Federal awards*

Internal control over major federal programs:

- Material weakness(es) identified?      Yes   x   No
- Significant deficiency(ies) identified?   x   Yes      None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?   x   Yes      No

Identification of major federal programs

| Name of Federal Program or Cluster | CFDA No. |
|------------------------------------|----------|
| Research and development cluster   | 93.855   |
| Research and development cluster   | 93.865   |

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   x   Yes      No

**Oak Crest Institute of Science  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2018**

***B. Findings – financial statement audit***

None.

***C. Findings and questioned costs-major federal program audit***

***2018-001 – Cut-off procedures***

*U.S. Department of Health and Human Services*

Systematic Development of Antiretroviral Intravaginal Rings for HIV Prevention 5U19AI113048 and Systematic Sustained Release Delivery for Antiretroviral Agents for HIV Prevention 5R01AAI120748; CFDA No. 93.855; year ending December 31, 2018

*Condition:* Management does not observe proper cut-off procedures with respect to payables and receivables.

*Criteria:* In accordance with the generally accepted accounting principles, costs are recorded when incurred and revenue is recognized when earned. Accordingly, expenses on cost reimbursement contracts should be accrued when incurred as payable, and the related cost reimbursement contract billing receivables should also be accrued as receivable.

*Cause:* The Organization does not have sufficient controls in place to properly include (detect) all costs incurred and revenue earned as of each respective year-end.

*Possible effect:* If cut-off procedures are not properly performed, expenditures of federal awards reported will not be complete and accurate. Accordingly, the schedule of federal awards will not be properly presented.

*Questioned costs:* None noted.

*Context:* During the audit, we noted that certain disbursements and receipts subsequent to year-end represented costs incurred, and revenue earned, as of December 31, 2018.

*Recommendation:* The Organization should review disbursements for three to four months subsequent to year-end, and properly accrue all costs incurred and related revenues earned by the previous year end.

*Views of responsible officials:* Management’s response is reported in the “Management’s Response and Corrective Action Plan” and is considered part of this report.



**Management's Response and Corrective Action Plan  
For the Year Ended December 31, 2018  
Section C – Federal Award Findings and Questioned Costs**

***Finding: 2018-001***

Management's Response: Management agrees with the finding.

Name of Contact Person: Dr. Marc Baum, President

Corrective Action Plan: For the year ending December 31, 2019, management will review disbursements for the three to four months subsequent to year-end to properly accrue costs incurred and related revenues earned during the year.

Completion Date: Management's implementation plan for more effective year end cut-off procedures for payables and receivables will begin effective immediately.

A handwritten signature in blue ink, appearing to be "M. Baum", is written above a horizontal line.

Dr. Marc Baum, President