

Oak Crest Institute of Science
Consolidated Financial Statements
As of and for the Year Ended December 31, 2019
and
Independent Auditor's Report

Oak Crest Institute of Science
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As of and for the Year Ended December 31, 2019

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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 consolidated financial statements of Oak Crest Institute of Science (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 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 consolidated 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 consolidated financial statements or to the consolidated 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020, 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

November 30, 2020

Oak Crest Institute of Science
Consolidated Statement of Financial Position
December 31, 2019

Assets

Current assets:	Amount
Cash	\$ 171,892
Receivables	516,682
Prepaid expenses	51,348
Total current assets	739,922
Property and equipment:	
Property and equipment, net	4,043,042
Other assets:	
Investment in a limited liability company	2
Organization costs, net	4,325
Security deposits	18,440
Total other assets	22,767
Total assets	\$ 4,805,731

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 441,528
Line of credit	62,485
Accrued and other current liabilities	112,118
Current portion of long-term notes payable	106,077
Current portion of capital lease payable	45,430
Total current liabilities	767,638
Long-term liabilities:	
Notes payable	\$ 1,903,768
Capital lease payable	102,922
Total long-term liabilities	2,006,690
Total liabilities	2,774,328
Net assets:	
Without donor restrictions	2,031,403
With donor restrictions	-
Total net assets	2,031,403
Total liabilities and net assets	\$ 4,805,731

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

Oak Crest Institute of Science
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

	<u>Donor Restrictions</u>		<u>Amount</u>
	<u>Without</u>	<u>With</u>	
Public support:			
Contributions and grants	\$ 79,568	\$ -	\$ 79,568
Donated materials	1,720	-	1,720
Total public support	81,288	-	81,288
Revenue and other income:			
Program fees and contract service revenue	3,520,358	-	3,520,358
Consulting fees	423,780	-	423,780
Laboratory facilities loan-out	41,126	-	41,126
Miscellaneous income	2,345	-	2,345
Total revenue and other income	3,987,609	-	3,987,609
Net assets released from restrictions:			
Restrictions satisfied by payments	-	-	-
Total public support, revenue, and other income	4,068,897	-	4,068,897
Operating expenses:			
Program services	3,704,352	-	3,704,352
Management and general	727,375	-	727,375
Total operating expenses	4,431,727	-	4,431,727
Net decrease in net assets	(362,830)	-	(362,830)
Net assets:			
Net assets, beginning of year	2,394,233	-	2,394,233
Net assets, end of year	\$ 2,031,403	\$ -	\$ 2,031,403

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

Oak Crest Institute of Science
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019

Description	Program Services	Mgt. & General	Total
Salaries and wages	\$ 920,842	\$ 313,553	\$ 1,234,395
Payroll taxes and employee benefits	184,636	30,450	215,086
Conferences and meetings	19,252	1,035	20,287
Dues and subscription	6,676	3,053	9,729
Occupancy	122,448	66,238	188,686
Furniture and equipment	9,199	1,096	10,295
Insurance	4,811	60,739	65,550
Interest expense	117,128	8,724	125,852
Miscellaneous	2,672	8,189	10,861
Research project	148,568	-	148,568
Printing and reproduction	1,870	2,265	4,135
Professional fees and contract services	54,807	167,250	222,057
Subcontractors	1,364,731	-	1,364,731
Repairs and maintenance	35,132	6,377	41,509
Travel	34,969	6,348	41,317
Utilities	65,122	19,616	84,738
Fellowships	89,864	-	89,864
Postage and delivery	6,545	291	6,836
Computer accessories and software	17,852	2,392	20,244
Supplies	101,534	7,367	108,901
Depreciation	395,694	22,392	418,086
	<u>\$ 3,704,352</u>	<u>\$ 727,375</u>	<u>\$ 4,431,727</u>
	<u>84%</u>	<u>16%</u>	<u>100%</u>

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

**Oak Crest Institute of Science
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019**

Cash flows from operating activities:	Amount
Decrease in net assets	\$ (362,830)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	418,086
(Increase) decrease in:	
Receivables	79,042
Prepaid expenses	2,642
Increase (decrease) in:	
Accounts payable	168,681
Accrued and other current liabilities	41,789
Total adjustments	710,240
Net cash provided by operating activities	347,410
Cash flows from investing activities:	
Purchases of property and equipment	(183,428)
Organization costs	(4,500)
Deposits paid	(4,920)
Net cash used by investing activities	(192,848)
Cash flows from financing activities:	
Net repayments of line of credit agreement	(12,515)
Principal payments on long-term notes payable	(133,056)
Principal payments on capital lease payable	(43,584)
Net cash used by financing activities	(189,155)
Net decrease in cash	(34,593)
Cash at beginning of year	206,485
Cash at end of year	\$ 171,892
Supplemental disclosures of cash flow information:	
<i>Cash paid during year for:</i>	
Interest	\$ 125,852
Income taxes	\$ -

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

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

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.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Oak Crest Institute of Science, Inc. and Oak Crest Holdings LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

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, 2019.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

1. Summary of significant accounting policies (continued)

Revenue and revenue recognition

Third party reimbursements

Revenue derived from cost-reimbursable federal and pass-through agency contracts and grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when we have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Consulting and laboratory facilities loan-out

Revenue is recognized from *consulting services and facilities loan-out* when the performance obligations of providing the services are met.

Donated materials 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 materials used in connection with its service programs. During the year ended December 31, 2019, the Organization received computer supplies valued at \$1,720.

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, 2019.

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, 2019.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

1. Summary of significant accounting policies (continued)

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, 2019.

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 grant receivables 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.

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

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.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

1. Summary of significant accounting policies (continued)

Property and equipment (continued)

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.

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.

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.

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. Occupancy, and depreciation are allocated on a square footage basis. 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.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

1. Summary of significant accounting policies (continued)

New accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)* which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing the revenue as performance obligations are satisfied. The Organization adopted ASC 606 effective as of January 1, 2019 using the modified retrospective transition method. The guidance did not have a significant impact on the Organization's revenue recognition and financial statement presentation.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. The Organization adopted ASU 2018-08 effective as of January 1, 2019 using the modified prospective transition method. The guidance did not have a significant impact on the Organization's revenue recognition and financial statement presentation.

Subsequent events

The Organization has evaluated subsequent events through November 30, 2020 the date which the financial statements were available to be issued. Except for the matters discussed in Note 16, 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, 2019:

	Amount
Expense reimbursement contract receivables	\$ 501,929
Other receivables	14,753
Subtotal	516,682
Less: Allowance for bad debt	-
	\$ 516,682

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

3. Prepaid expenses

Following is a summary of prepaid expenses at December 31, 2019:

	Amount
Prepaid insurance	\$ 31,194
Prepaid rent	17,282
Other prepayments	2,872
	\$ 51,348

4. Property and equipment

Following is a summary of property and equipment – at cost, less accumulated depreciation, at December 31, 2019:

	Property and equipment	Capital lease equipment	Total
Land	\$ 190,848	\$ -	\$ 190,848
Building	3,235,971	-	3,235,971
Building improvements	197,832	-	197,832
Leasehold improvements	174,256	-	174,256
Machinery and equipment	1,427,524	-	1,427,524
Office equipment	8,021	-	8,021
Software	52,358	-	52,358
Equipment held under capital lease	-	217,922	217,922
	5,286,810	217,922	5,504,732
Less: Accumulated depreciation	(1,381,786)	(79,904)	(1,461,690)
	\$ 3,905,024	\$ 138,018	\$ 4,043,042

Depreciation expense charged to operations \$417,911 for the year ended December 31, 2019.

5. Investment in a limited liability company

The Organization is collaborating with the City of Monrovia in developing the local science ecosystem, in accordance with its mission. This includes supporting local science startup companies (e.g., workforce development, teaching/training) through a laboratory loan out agreement – similar to incubation, but with full lab infrastructure/support, in two leased buildings adjacent to the Organization. As such, in May 2019, the Organization incorporated and became the sole member of Oak Crest Holdings LLC (the Subsidiary).

The Subsidiary partnered with Newton World Enterprises LLC to fulfill this mission and is invested 4.5% of Class F units and 15% of Class A units for a total investment of \$4,600.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

6. 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 (through October 2021) and is secured by a UCC filing on substantially all assets of the Organization.

At December 31, 2019, the Organization had \$37,515 of unused line of credit, in connection with this agreement to be drawn upon as needed. Interest expense, in connection with this agreement, was \$5,844 for the year ended December 31, 2019.

7. Accrued and other current liabilities

Following is a summary of accrued and other current liabilities at December 31, 2019:

	Amount
Accrued vacation	\$ 51,236
Insurance contract payable	18,607
Short-term loan payable	18,000
Laboratory loan out deposit	14,295
Accrued interest payable	9,176
Other current liabilities	804
	\$ 112,118

8. Notes payable

Following is a summary of notes payable at December 31, 2019:

	Amount
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.	\$ 802,936
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.	1,119,585
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.	87,324
Subtotal	2,009,845
Less: Current maturities included in current liabilities	(106,077)
	\$ 1,903,768

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

8. Notes payable (continued)

Interest expense, in connection with these notes payable, was \$106,221, for the year ended December 31, 2019, which is included in interest expense.

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>	Amount
2020	\$ 106,077
2021	112,544
2022	1,084,576
2023	35,253
2024	36,964
Thereafter	634,431
	<u>\$ 2,009,845</u>

9. 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 \$43,584 for the year ended December 31, 2019, which is included in depreciation expense.

Minimum future lease payments under capital leases as of December 31, 2019 for each of the next four years and in the aggregate are:

<i>Year ending December 31,</i>	Amount
2020	\$ 50,733
2021	50,733
2022	50,733
2023	12,685
Thereafter	-
Total minimum lease payments	<u>164,884</u>
Less: Amount representing interest	<u>(16,532)</u>
Present value of net minimum lease payment	<u>\$ 148,352</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 \$7,149 for the year ended December 31, 2019.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

10. Revenue from contracts with customers

Following is a summary of revenue from contracts with customers and deferred revenue at December 31, 2019:

	Revenue	Deferred revenue
Consulting fees	\$ 423,780	\$ -
Laboratory facilities loan out	41,126	14,295
	\$ 464,906	\$ 14,295

11. Leases

The Organization leases three 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, 2019, for each of the next four years, and in the aggregate are:

<i>Year ending December 31, 2019</i>	Amount
2020	\$ 192,952
2021	199,050
2022	166,023
2023	167,458
2024	26,225
Thereafter	-
	\$ 751,708

Following is a summary of long-term operating leases and renewal options at December 31, 2019:

Description of Property	Minimum Annual Rental	Expiration Date	Renewal Option	
			Term	Rent
Operations and administrative facility	\$ 40,005	January 2022	2 years	3%
Operations facility	81,947	April 2024	N/A	N/A
Operations facility	71,000	April 2024	N/A	N/A
	\$ 192,952			

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

Rental expense under all operating leases totaled \$171,141 for the year ended December 31, 2019.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

12. 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 annual limit provided by the IRC. The plan requires the Organization to match 1% to 4% of the employee salaries. During the year ended December 31, 2019, the Organization made matching contributions to the plan of \$35,501.

13. Related party transactions

During the year ended December 31, 2019, the Organization made an initial contribution to Oak Crest Holdings LLC for \$4,600.

14. Concentrations

Customer

The Organization received support from one contract agency during 2019, which constituted 64% of total public support, revenue, and other income. At December 31, 2019, there was no balance receivable from this contract agency.

Vendor

The Organization contracted with two entities during 2019, which constituted 15% (8% and 7%) of total expenses. At December 31, 2019, the balances payable to these entities were \$73,750 and \$80,363, respectively.

15. 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, 2019, reduced by amounts not available for general expenditures within one year.

	Amount
Cash	\$ 171,892
Receivables	516,682
Total financial assets	688,574
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 general expenditure within one year	\$ 688,574

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2019

16. 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.

17. Other matters

Paycheck Protection Program Loan

On May 8, 2020, the Company was granted a loan in the aggregate amount of \$260,099, pursuant to the Paycheck Protection Program (PPP Loan) under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (CARES Act) administered by the U.S. Small Business Administration. The PPP Loan is unsecured and has an interest rate of 1% per annum and subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. Subject to certain conditions, the PPP loan may be forgiven in whole or in part by applying for forgiveness pursuant to the CARES Act and the PPP Loan. There can be no assurance that the Company will be granted forgiveness of the PPP loan in whole or in part. Assuming the principal amount is not forgiven, the payment schedule would consist of monthly consecutive payments beginning in November 2020 with the final payment due in April 2022 for all principal and accrued interest not yet paid.

COVID-19

The Company may be adversely affected by health epidemics including the recent coronavirus outbreak. In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where we are headquartered, have declared a state of emergency.

Potential impacts to the Company include disruptions or restrictions on our employees' ability to work. In addition, COVID-19 could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for Company's services and operating results. Any of the foregoing could harm the Company and management cannot anticipate all of the ways in which health epidemics such as COVID-19 could adversely impact the Company. Although management is continuing to monitor and assess the effects of the COVID-19 pandemic, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal CFDA #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
Federal awards				
<i>Department of Health & 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			\$ 161,040	\$ -
HIV Prophylaxis Core B			124,534	-
HIV Prophylaxis Project 1			325,474	109,404
HIV Prophylaxis Project 2			375,067	113,238
HIV Prophylaxis Project 3			342,734	342,734
HIV Prophylaxis Project 4			629,643	559,177
HIV Prophylaxis Project 5			94,755	-
Systemic Sustained Release Delivery of Antiretroviral Agents for HIV Prevention *	93.855	5R01AI120748	527,512	271,723
Total direct programs			2,580,759	1,396,276

(continued next page)

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal CFDA #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<i>(continued from previous page)</i>				
<u>Research and development cluster</u>				
Federal awards				
Pass-through programs:				
University of Massachusetts				
Novel Immunotherapeutics Against Multidrug-Resistant Neisseria Gonorrhoea *	93.855	R01AI132296	\$ 147,585	\$ -
Sialic Acid Analogs as Novel Immunotherapeutics Against Multidrug-Resistant Gonorrhea *	93.855	R33AI119327	84,050	-
Gonorrhea and HIV Prevention with Intravaginal Ring Drug Delivery *	93.855	R61AI136007	123,557	-
Harvard University - Dana Farber Cancer Institute, Inc.				
Prevention of HIV-1 Transmission by Small-Molecule CD4-Mimetic Entry Inhibitors *	93.855	R01AI134494	197,979	-
Tulane University				
Testing Novel Microbicide in Sustained Release Formulations *	93.855	R01AI131433	178,720	-
Stanford University				
Estrogen Reverses Progesterin-Mediated Loss of Genital Mucosal Barrier Function *	93.865	R01HD094634	86,129	-
Boston University				
Anti-body based Contraceptive MPTs: Preclinical and Clinical Research *	93.865	R01HD094634	26,315	-
Total pass-through programs			844,335	-
Total research and development cluster programs			3,425,094	1,396,276

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal CFDA #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<i>(continued from previous page)</i>				
<u>Other programs</u>				
Federal awards				
Pass-through programs:				
US Department of Commerce				
Monrovia - Oak Crest Science and Technology				
Incubator Program	11.020	ED19HDQ200079	\$ 95,264	\$ -
Total other programs			<u>95,264</u>	<u>-</u>
Total federal awards			<u>\$ 3,520,358</u>	<u>\$ 1,396,276</u>

* 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, 2019

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, 2019:

Subrecipient	Contract Number		Total
	U19AI 113048	5R01AI 120748	
CDC Foundation	\$ 102,947	\$ 6,953	\$ 109,900
John Hopkins University	43,315	-	43,315
Scripps Research Institute	184,966	158,158	343,124
The Miriam Hospital	221,463	-	221,463
University of California San Diego	65,195	-	65,195
University of California Los Angeles	84,642	-	84,642
University of Texas Medical Branch	355,936	-	355,936
Vanderbilt University	66,089	106,612	172,701
	\$ 1,124,553	\$ 271,723	\$ 1,396,276

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.

**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***

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, 2019, 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 November 30, 2020.

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 2019-001 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 2019-001.

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

November 30, 2020

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

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, 2019. 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, 2019.

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 2019-001. 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 2019-001, 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

November 30, 2020

**Oak Crest Institute of Science
Summary of Findings and Questioned Costs
For the Year Ended December 31, 2019**

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

No
None

• Significant deficiency(ies) identified? Yes

reported

Noncompliance material to financial statements noted? Yes

No

Federal awards

Internal control over major federal programs:

• Material weakness(es) identified? Yes

No
None

• Significant deficiency(ies) identified? Yes

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) ? 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? Yes

No

Oak Crest Institute of Science
Summary of Findings and Questioned Costs
For the Year Ended December 31, 2019

B. Findings – financial statement audit

None.

C. Findings and questioned costs-major federal program audit

2019-001 – Allowable costs

U.S. Department of Health and Human Services

Systematic Sustained Release Delivery for Antiretroviral Agents for HIV Prevention 5R01AAI120748; CFDA No. 93.855; year ending December 31, 2019

Condition: The Organization inadvertently billed the federal contract more than the subrecipient's invoice for the month of February 2019 by \$31,545.

Criteria: In accordance with the cost-reimbursement contract, only costs incurred, whether already paid or to be paid, are to be billed to federal contracts.

Cause: The Organization does not have sufficient controls in place to properly detect any incorrect input errors in costs incurred and to be billed to federal contracts.

Possible effect: Expenditures of federal awards reported will not be accurate. Accordingly, the schedule of federal awards will not be properly presented; and Federal agencies can be overbilled.

Questioned costs: \$31,545

Context: During the audit, we noted that one invoice from a subrecipient was inadvertently recorded in the accounting system as \$35,050.38 instead of \$3,505.38. As such, the monthly expenditure report prepared by the Accountant and submitted to the CEO, which is used for billing federal contracts, was also incorrect.

Recommendation: The Organization should include copies of expenditure documentation in addition to the expenditure report provided by the Accountant to the CEO, in order to check the accuracy of the amounts included in the expenditure report.

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.

**Oak Crest Institute of Science
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2019**

U.S. Department of Health and Human Services

Finding 2018-001 – Allowable costs: 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

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

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.

Current status: Our recommendation was adopted as soon as administratively possible. No similar findings were noted after the adoption of our recommendation.



**Management's Response and Corrective Action Plan
For the Year Ended December 31, 2019
Section C – Federal Award Findings and Questioned Costs**

Finding: 2019-001

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 all disbursements for subawards to ascertain if all credits and invoice adjustments subsequent to year-end to properly account for 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 read "Marc Baum", is written above a horizontal line.

Dr. Marc Baum, President