

**Oak Crest Institute of Science**  
**Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**  
**and**  
**Independent Auditor's Report**

**Oak Crest Institute of Science**  
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**As of and for the Year Ended December 31, 2020**

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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, 2020, 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 consolidated financial position of Oak Crest Institute of Science as of December 31, 2020, and the consolidated 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 August 30, 2021, 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

August 30, 2021

**Oak Crest Institute of Science**  
**Consolidated Statement of Financial Position**  
**December 31, 2020**

**Assets**

<b>Current assets:</b>	<b>Amount</b>
Cash	\$ 522,577
Receivables	649,971
Prepaid expenses	53,287
Total current assets	1,225,835
<b>Property and equipment:</b>	
Property and equipment, net	4,056,434
<b>Other assets:</b>	
Investment in a limited liability company	2
Organization costs, net	4,025
Security deposits	15,250
Other assets	9,382
Total other assets	28,659
Total assets	\$ 5,310,928

**Liabilities and Net Assets**

<b>Current liabilities:</b>	
Accounts payable	\$ 318,526
Line of credit	47,967
Accrued and other current liabilities	106,821
Current portion of long-term notes payable	31,403
Current portion of capital lease payable	47,353
Total current liabilities	552,070
<b>Long-term liabilities:</b>	
Notes payable	\$ 1,918,884
Capital lease payable	54,344
Total long-term liabilities	1,973,228
Total liabilities	2,525,298
<b>Net assets:</b>	
Without donor restrictions	2,785,630
With donor restrictions	-
Total net assets	2,785,630
Total liabilities and net assets	\$ 5,310,928

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, 2020**

	<u>Donor Restrictions</u>		<u>Amount</u>
	<u>Without</u>	<u>With</u>	
<b>Public support:</b>			
Contributions and grants	\$ 38,792	\$ -	\$ 38,792
<b>Revenue and other income:</b>			
Program fees and contract service revenue	3,705,224	-	3,705,224
Consulting fees	860,284	-	860,284
Laboratory facilities loan-out	167,263	-	167,263
Paycheck protection program loan forgiveness	260,099	-	260,099
Miscellaneous income	368	-	368
Total revenue and other income	<u>4,993,238</u>	-	<u>4,993,238</u>
<b>Net assets released from restrictions:</b>			
Restrictions satisfied by payments	-	-	-
Total public support, revenue, and other income	5,032,030	-	5,032,030
<b>Operating expenses:</b>			
Program services	3,466,118	-	3,466,118
Management and general	811,685	-	811,685
Total operating expenses	<u>4,277,803</u>	-	<u>4,277,803</u>
Net increase in net assets	754,227	-	754,227
<b>Net assets:</b>			
Net assets, beginning of year	<u>2,031,403</u>	-	<u>2,031,403</u>
Net assets, end of year	<u>\$ 2,785,630</u>	<u>\$ -</u>	<u>\$ 2,785,630</u>

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, 2020**

<b>Description</b>	<b>Program Services</b>	<b>Mgt. &amp; General</b>	<b>Total</b>
Salaries and wages	\$ 1,062,170	\$ 298,046	\$ 1,360,216
Payroll taxes and employee benefits	178,629	50,124	228,753
Conferences and meetings	4,213	800	5,013
Dues and subscription	4,571	3,108	7,679
Occupancy	126,095	75,606	201,701
Furniture and equipment	8,242	-	8,242
Insurance	5,399	69,940	75,339
Interest and finance charges	115,891	21,634	137,525
Miscellaneous	822	6,946	7,768
Research project	219,495	-	219,495
Printing and reproduction	5,907	3,583	9,490
Professional fees and contract services	149,833	206,057	355,890
Subcontractors	889,142	-	889,142
Repairs and maintenance	31,101	1,842	32,943
Travel	7,738	5,763	13,501
Utilities	76,690	26,184	102,874
Fellowships	26,452	-	26,452
Postage and delivery	10,531	206	10,737
Computer accessories and software	19,586	4,375	23,961
Supplies	104,589	9,523	114,112
Depreciation	419,022	27,948	446,970
	<u>\$ 3,466,118</u>	<u>\$ 811,685</u>	<u>\$ 4,277,803</u>
	<u>81%</u>	<u>19%</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, 2020**

<b>Cash flows from operating activities:</b>	<b>Amount</b>
Increase in net assets	\$ 754,227
<b>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</b>	
Depreciation and amortization expense	446,970
<b>(Increase) decrease in:</b>	
Receivables	(133,289)
Prepaid expenses	(1,939)
<b>Increase (decrease) in:</b>	
Accounts payable	(123,002)
Accrued and other current liabilities	(5,297)
Total adjustments	183,443
Net cash provided by operating activities	937,670
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	(460,062)
Loan fees paid	(9,382)
Deposits refunded	3,190
Net cash used by investing activities	(466,254)
<b>Cash flows from financing activities:</b>	
Net repayments under line of credit agreement	(14,518)
Principal payments on long-term notes payable	(59,558)
Principal payments on capital lease payable	(46,655)
Net cash used by financing activities	(120,731)
Net increase in cash	350,685
Cash at beginning of year	171,892
Cash at end of year	\$ 522,577

**Supplemental disclosures of cash flow information:**

<i>Cash paid during year for:</i>	
Interest	\$ 117,843
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, 2020**

**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:

- *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.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

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

*Net Assets (continued)*

- *With Donor Restrictions:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions restricted by donors are reported as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, 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 consolidated statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

*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 the Organization has 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.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

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

***Revenue and revenue recognition (continued)***

*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, 2020, the Organization has no donated materials and services.

***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, 2020.

***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, 2020.

***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 may at times exceed the FDIC federally insured amount of \$250,000. At December 31, 2020, the Organization has uninsured cash deposits of approximately \$30,000.

***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.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

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

***Property and equipment***

Property and equipment are recorded at cost. The Organization's policy is to capitalize assets with a cost of \$2,500 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.

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 Organization'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 Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**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.

***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. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Management and general expense include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Payroll related expenses	Time and effort
Occupancy and depreciation	Asset usage - utilization by square feet
Insurance	Time and effort

***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 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, 2020 using the modified retrospective transition method. The guidance did not have a significant impact on the Organization's revenue recognition and financial statement presentation.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

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

*New accounting standards (continued)*

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, 2020 using the modified prospective transition method. The guidance did not have a significant impact on the Organization's revenue recognition and financial statement presentation.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease.

However, unlike current GAAP—which requires only capital leases to be recognized on the statement of financial position—the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2021. Early application of the amendments in this ASU is permitted. The Organization is evaluating the impact this pronouncement may have on the financial statements upon adoption.

*Subsequent events*

The Organization has evaluated subsequent events through August 30, 2021 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, 2020:

	<b>Amount</b>
Expense reimbursement contract receivables	\$ 649,971
Less: Allowance for bad debt	-
	\$ 649,971

**3. Prepaid expenses**

Following is a summary of prepaid expenses at December 31, 2020:

	<b>Amount</b>
Prepaid insurance	\$ 36,320
Prepaid rent	16,396
Other prepayments	571
	\$ 53,287

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**4. Property and equipment**

Following is a summary of property and equipment – at cost, less accumulated depreciation, at December 31, 2020:

	Property and equipment	Capital lease equipment	Total
Land	\$ 190,848	\$ -	\$ 190,848
Building	3,235,971	-	3,235,971
Building improvements	203,645	-	203,645
Leasehold improvements	174,256	-	174,256
Machinery and equipment	1,881,773	-	1,881,773
Office equipment	8,021	-	8,021
Software	52,358	-	52,358
Equipment held under capital lease	-	217,922	217,922
	<u>5,746,872</u>	<u>217,922</u>	<u>5,964,794</u>
Less: Accumulated depreciation	<u>(1,784,872)</u>	<u>(123,488)</u>	<u>(1,908,360)</u>
	<u>\$ 3,962,000</u>	<u>\$ 94,434</u>	<u>\$ 4,056,434</u>

Depreciation expense charged to operations \$446,670 for the year ended December 31, 2020.

**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 in 4.5% of Class F units and 15% of Class A units for a total investment of \$4,600 (investment made in 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, 2020, the Organization had \$52,033 of unused line of credit, in connection with this agreement to be drawn upon as needed. Interest expense, in connection with this agreement, was \$3,795 for the year ended December 31, 2020.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**7. Accrued and other current liabilities**

Following is a summary of accrued and other current liabilities at December 31, 2020:

	<b>Amount</b>
Accrued vacation	\$ 72,420
Insurance contract payable	17,780
Laboratory loan out deposit	6,795
Accrued interest payable	8,241
Other current liabilities	1,585
	<b>\$ 106,821</b>

**8. Notes payable**

Following is a summary of notes payable at December 31, 2020:

	<b>Amount</b>
4.75% note payable to a bank in monthly installments of \$10,394, including principal and interest, through August 2030, and one final principal payment of \$1,577,500. This note is secured by the land, building and solar electric system of the Organization.	\$ 1,950,287
Less: Current maturities included in current liabilities	(31,403)
	<b>\$ 1,918,884</b>

In June 2020, the Organization consolidated three notes payable with an aggregate balance of \$1,944,431.

Interest expense, in connection with these notes payable, was \$105,373, for the year ended December 31, 2020, 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>	<b>Amount</b>
2021	\$ 31,403
2022	32,949
2023	34,571
2024	36,020
2025	38,047
Thereafter	1,777,297
	<b>\$ 1,950,287</b>

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**9. Capital lease**

The Organization 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, 2020, which is included in depreciation expense.

Minimum future lease payments under capital leases as of December 31, 2020 for each of the next three years and in the aggregate are:

<i>Year ending December 31,</i>	<b>Amount</b>
2021	\$ 50,733
2022	50,733
2023	12,685
Thereafter	-
Total minimum lease payments	114,151
Less: Amount representing interest	(12,454)
Present value of net minimum lease payment	<u>\$ 101,697</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 \$8,517 for the year ended December 31, 2020.

**10. Revenue from contracts with customers**

Following is a summary of revenue from contracts with customers and deferred revenue at December 31, 2020:

	<b>Revenue</b>	<b>Accrued and other current liabilities</b>
Consulting fees	\$ 860,284	\$ -
Laboratory facilities loan out	167,263	6,795
	<u>\$ 1,027,547</u>	<u>\$ 6,795</u>

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**11. 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, 2020, for each of the next four years, and in the aggregate are:

<i>Year ending December 31, 2020</i>	<b>Amount</b>
2021	\$ 199,050
2022	166,023
2023	167,458
2024	56,367
Thereafter	-
	<u>\$ 588,898</u>

Following is a summary of long-term operating leases and renewal options at December 31, 2020:

<b>Description of Property</b>	<b>Minimum</b>	<b>Expiration Date</b>	<b><u>Renewal Option</u></b>	
	<b>Annual Rental</b>		<b>Term</b>	<b>Rent</b>
Operations and administrative facility	\$ 41,205	January 2022	2 years	3%
Operations facility	157,845	April 2024	N/A	N/A
	<u>\$ 199,050</u>			

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

Rental expense under all operating leases totaled \$201,701 for the year ended December 31, 2020.

**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, 2020, the Organization made matching contributions to the plan of \$36,190.

**13. Related party transactions**

During the year ended December 31, 2020, the Organization made working capital advances to Oak Crest Holdings LLC of \$2,807.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**14. Concentrations**

*Customer*

The Organization received support from one contract agency during 2020, which constituted 51% of total public support, revenue, and other income. At December 31, 2020, the Organization has a receivable balance of \$492,729 from this contract agency.

**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, 2020, reduced by amounts not available for general expenditures within one year.

	<b>Amount</b>
Cash	\$ 522,577
Receivables	649,971
Total financial assets	1,172,548
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	\$ 1,172,548

**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*

In April 2020, the Organization received a Small Business Administration PPP (Paycheck Protection Program) loan in the amount of \$260,099 at 1% interest with all principal and interest due April 2022. The Organization utilized the loan for purposes consistent with the PPP in order to be granted full forgiveness.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2020**

**17. Other matters (continued)**

*Paycheck Protection Program Loan (continued)*

As of December 31, 2020, all \$260,099 of qualifying expenses had been incurred; and, subsequent to year-end, in May 2021, the loan was forgiven by the Small Business Administration. Because the conditions had been substantially met for forgiveness by December 31, 2020, the full amount of the loan has been recognized as grant income, and is included in revenue and other income in the statement of activities.

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal CFDA #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
<b>Federal awards</b>				
<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			\$ 118,732	\$ -
HIV Prophylaxis Core B			231,173	-
HIV Prophylaxis Project 1			211,974	39,775
HIV Prophylaxis Project 2			307,465	24,050
HIV Prophylaxis Project 3			289,342	258,405
HIV Prophylaxis Project 4			375,842	306,544
HIV Prophylaxis Project 5			53,397	-
Systemic Sustained Release Delivery of				
Antiretroviral Agents for HIV Prevention *	93.855	5R01AI120748	649,103	123,155
A Bioresorbable Subdermal Implant for Sustained Delivery of				
Novel Maturation Inhibitor to Prevent HIV Infection *	93.855	R01DH101344	155,595	26,393
Next Generation Multipurpose Prevention Technology: An Intravaginal				
Ring for HIV Prevention and Nonhormonal Contraception*	93.865	R01DH101344	310,566	110,820
Total direct programs			\$ 2,703,189	\$ 889,142

*(continued next page)*

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020**

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>				
<b>Federal awards</b>				
Pass-through programs:				
University of Massachusetts				
Novel Immunotherapeutics Against Multidrug-Resistant Neisseria Gonorrhoea *	93.855	R01AI132296	\$ 107,634	\$ -
Sialic Acid Analogs as Novel Immunotherapeutics Against Multidrug-Resistant Gonorrhea *	93.855	R33AI119327	105,724	-
Gonorrhea and HIV Prevention with Intravaginal Ring Drug Delivery *	93.855	R61AI136007	99,650	-
Harvard University - Dana Farber Cancer Institute, Inc.				
Prevention of HIV-1 Transmission by Small-Molecule CD4-Mimetic Entry Inhibitors *	93.855	R01AI134494	154,352	-
Tulane University				
Testing Novel Microbicide in Sustained Release Formulations *	93.855	R01AI131433	178,851	-
DFH Pharma				
Preclinical Development of 2nd Generation HIV Maturation Inhibitors *	93.855	R42AI155312	38,543	-
Planet Biotech				
An Immunotherapeutic to Prevent Gonorrhea *	93.855	R44AI147930	36,953	-
University of Texas Galveston				
Cervicovaginal Vaccine Delivery by Novel Pod Intravaginal Rings for Therapeutic Immunization Against HSV-2	93.855	R21AI15375802	4,308	-
Subtotal <i>(continued next page)</i>			\$ 726,015	\$ -

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020**

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>				
<b>Federal awards</b>				
Pass-through programs:				
University of Southern California				
Molecular Mechanism Re: Homeostatic Control of Synaptic Strength *	93.853	R01NS091546	\$ 14,969	\$ -
Stanford University				
Estrogen Reverses Progestin-Mediated Loss of Genital Mucosal Barrier Function *	93.865	R01HD094634	62,297	-
Boston University				
Anti-body based Contraceptive MPTs: Preclinical and Clinical Research *	93.865	P50HD096957	38,126	-
Total pass-through programs			841,407	-
Total Department of Health and Human Services			3,544,596	889,142
 <i>National Science Foundation</i>				
Pass-through programs:				
Pasadena City College				
The Micro Nano Technology Education Center *	47.076	2000281	41,472	-
Total pass-through programs			41,472	-
Total National Science Foundation			41,472	-
Total research and development cluster programs			\$ 3,586,068	\$ 889,142

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020**

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>				
<b>Federal awards</b>				
Pass-through programs:				
US Department of Commerce				
Monrovia - Oak Crest Science and Technology				
Incubator Program	11.020	ED19HDQ200079	\$ 119,156	\$ -
Total other programs			<u>119,156</u>	<u>-</u>
Total federal awards			<u>\$ 3,705,224</u>	<u>\$ 889,142</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, 2020**

**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, 2020. 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, 2020:

<b>Subrecipient</b>	<b>Contract Number</b>				<b>Total</b>
	<b>U19AI 113048</b>	<b>5R01AI 120748</b>	<b>R01AI 154561</b>	<b>R01DH 101344</b>	
CDC Foundation	\$ 58,039	\$ 14,977	\$ -	\$ -	\$ 73,016
DFH Pharma Inc.	-	-	17,600	-	17,600
John Hopkins University	8,201	-	-	-	8,201
Scripps Research Institute	152,460	58,308	-	-	210,768
The Miriam Hospital	177,840	-	-	-	177,840
University of California San Diego	24,051	-	-	-	24,051
University of North Carolina	-	-	-	110,820	110,820
University of Texas Medical Branch	176,610	-	-	-	176,610
Vanderbilt University	31,573	49,870	8,793	-	90,236
	<b>\$ 628,774</b>	<b>\$ 123,155</b>	<b>\$ 26,393</b>	<b>\$ 110,820</b>	<b>\$ 889,142</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, 2020, 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 August 30, 2021.

**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) as a basis for designing 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. However, material weaknesses may exist that have not been identified.

## 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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*

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

August 30, 2021

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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, 2020. 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, 2020.

### ***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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

August 30, 2021

**Oak Crest Institute of Science  
Summary of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

**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?      Yes   x   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?      Yes   x   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   x   No

Identification of major federal programs

Name of Federal Program or Cluster	CFDA No.
Research and development cluster	93.853
Research and development cluster	93.855
Research and development cluster	93.865
Research and development cluster	47.076

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  
Summary of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

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

None.

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

None.

**Oak Crest Institute of Science  
Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2020**

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

***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.

*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.

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