



Oak Crest Institute of Science
Consolidated Financial Statements
As of and for the Year Ended December 31, 2023
and
Independent Auditor's Report

Oak Crest Institute of Science
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Independent Auditor's Report

Board of Directors
Oak Crest Institute of Science

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Oak Crest Institute of Science as of December 31, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Oak Crest Institute of Science and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oak Crest Institute of Science's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oak Crest Institute of Science's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oak Crest Institute of Science's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 schedule of expenditures of federal awards 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 July 10, 2024 on our consideration of the 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 solely 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 the effectiveness of the Oak Crest Institute of Science’s 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 the 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

July 10, 2024

Oak Crest Institute of Science
Consolidated Statement of Financial Position
December 31, 2023

Assets

Current assets:	Amount
Cash	\$ 487,609
Receivables	1,879,832
Prepaid expenses	94,786
Total current assets	2,462,227
Property and equipment:	
Property and equipment, net	3,650,794
Other assets:	
Investment in a limited liability company	2
Right-of-use-assets - operating	58,583
Security deposits	15,650
Other assets	9,545
Total other assets	83,780
Total assets	\$ 6,196,801

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 936,827
Line of credit	55,298
Accrued and other current liabilities	222,317
Current portion of long-term note payable	44,760
Current portion of lease liabilities - operating	59,763
Total current liabilities	1,318,965
Long-term liabilities:	
Note payable	1,645,355
Total liabilities	2,964,320
Net assets:	
Without donor restrictions	3,232,481
Total net assets	3,232,481
Total liabilities and net assets	\$ 6,196,801

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, 2023

	Donor Restrictions		Amount
	Without	With	
Public support:			
Contributions and grants	\$ 4,381	\$ -	\$ 4,381
Revenue and other income:			
Program fees and contract service revenue	6,986,828	-	6,986,828
Consulting fees	515,670	-	515,670
Laboratory facilities loan-out	280,855	-	280,855
Miscellaneous income	1,644	-	1,644
Total revenue and other income	7,784,997	-	7,784,997
Net assets released from restrictions:			
Restrictions satisfied by payments	-	-	-
Total public support, revenue, and other income	7,789,378	-	7,789,378
Operating expenses:			
Program services	5,871,496	-	5,871,496
Management and general	855,746	-	855,746
Total operating expenses	6,727,242	-	6,727,242
Net change in net assets	1,062,136	-	1,062,136
Net assets:			
Net assets, beginning of year	2,170,345	-	2,170,345
Net assets, end of year	\$ 3,232,481	\$ -	\$ 3,232,481

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, 2023

Description	Program Services	Mgt. & General	Total
Salaries and wages	\$ 1,022,409	\$ 334,240	\$ 1,356,649
Payroll taxes and employee benefits	185,686	52,372	238,058
Conferences and meetings	7,435	3,665	11,100
Dues and subscription	2,546	1,258	3,804
Occupancy	183,034	28,600	211,634
Furniture and equipment	957	-	957
Insurance	2,203	56,236	58,439
Interest and finance charges	96,617	10,183	106,800
Miscellaneous	173	16,215	16,388
Materials for research project	1,912,615	-	1,912,615
Printing and reproduction	828	9,404	10,232
Professional fees and contract services	459,876	242,363	702,239
Subcontractors	1,315,257	-	1,315,257
Repairs and maintenance	92,916	9,940	102,856
Travel	31,548	7,192	38,740
Utilities	136,317	37,936	174,253
Fellowships	1,584	-	1,584
Postage and delivery	16,180	499	16,679
Computer accessories and software	18,203	9,098	27,301
Supplies	38,394	13,174	51,568
Credit loss expense	-	7,284	7,284
Depreciation and amortization	346,718	16,087	362,805
	<u>\$ 5,871,496</u>	<u>\$ 855,746</u>	<u>\$ 6,727,242</u>
	<u>87%</u>	<u>13%</u>	<u>100%</u>

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

**Oak Crest Institute of Science
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2023**

Cash flows from operating activities:	Amount
Change in net assets	\$ 1,062,136
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	362,805
Loan fee amortization (interest expense)	988
Amortization of operating leased assets	201,630
(Increase) decrease in:	
Receivables	(1,162,073)
Prepaid expenses	64,590
Increase (decrease) in:	
Accounts payable	465,151
Accrued and other current liabilities	95,785
Lease liabilities - operating	(203,654)
Total adjustments	<u>(174,778)</u>
Net cash provided by operating activities	887,358
Cash flows from investing activities:	
Purchases of property and equipment	<u>(543,729)</u>
Net cash used by investing activities	(543,729)
Cash flows from financing activities:	
Net borrowings under line of credit agreement	39,800
Principal payments on long-term notes payable	(195,855)
Principal payments on capital lease payable	<u>(14,481)</u>
Net cash used by financing activities	<u>(170,536)</u>
Net change in cash	173,093
Cash at beginning of year	<u>314,516</u>
Cash at end of year	<u><u>\$ 487,609</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during year for:	
Interest	\$ 107,164
Income taxes	\$ 800

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, 2023

1. Summary of significant accounting policies

This summary of significant accounting policies of Oak Crest Institute of Science (the Organization) is presented to assist in understanding the Organization's consolidated 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 and Oak Crest Holdings LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting

The consolidated 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 consolidated 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, 2023

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 consolidated 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, 2023

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 occasionally receives donated materials used in connection with its service programs. During the year ended December 31, 2023, the Organization did not receive any 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, 2023.

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 credit losses 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 credit losses at December 31, 2023.

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, 2023, the Organization has no uninsured cash deposits.

Receivables

Credit risk with respect to receivables is also limited due to the Organization's interaction with government entities on a contractual basis.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

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 \$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 consolidated 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 payable and lease liabilities 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, 2023

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 consolidated statement 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 expenses 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 consolidated 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 consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent events

The Organization has evaluated subsequent events through July 10, 2024 the date which the consolidated financial statements were available to be issued. There were no subsequent events noted that would require adjustment to or disclosure in these consolidated financial statements.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

1. Summary of significant accounting policies (continued)

Recent accounting pronouncements

In June 2016, the FASB issued *ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU affect an entity to varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current U.S. GAAP. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The financial statements will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses and related credit loss expense will replace the previously used allowance for doubtful accounts and related bad debt expense, respectively, as it relates to trade receivables.

Various subsequent accounting standards have been issued by the FASB that clarify, modify, or expand the guidance for ASU No. 2016-13, which has been codified as Topic 326. In November 2019, the FASB issued *ASU No. 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date of Topic 326, as amended, by one year. The amendments in this ASU are now effective for private companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings (net assets for the Organization) as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). Management believes that this ASU does not have a material effect on the Organization’s financial statements.

2. Receivables

Following is a summary of receivables at December 31, 2023:

	Amount
Expense reimbursement contract receivables	\$ 1,879,832
Less: Allowance for credit losses	-
	\$ 1,879,832

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

3. Prepaid expenses

Following is a summary of prepaid expenses at December 31, 2023:

	Amount
Prepaid insurance	\$ 38,722
Prepaid maintenance	20,740
Prepaid rent	19,849
Prepaid conference	4,927
Other prepayments	10,548
	\$ 94,786

4. Property and equipment

Following is a summary of property and equipment – at cost, less accumulated depreciation, at December 31, 2023:

	Amount
Land	\$ 190,848
Building	3,235,971
Building improvements	381,147
Leasehold improvements	174,256
Machinery and equipment	2,813,734
Office equipment	8,021
Software	52,358
	6,856,335
Less: Accumulated depreciation	(3,205,541)
	\$ 3,650,794

Depreciation expense charged to operations \$362,505 for the year ended December 31, 2023.

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).

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

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 prime rate plus 3.25%. This agreement renews annually (through October 2024) and is secured by a UCC filing on substantially all assets of the Organization. The interest rate at December 31, 2023 was 11.75%.

At December 31, 2023, the Organization had \$44,702 of unused line of credit, in connection with this agreement to be drawn upon as needed. Interest expense, in connection with this agreement, was \$4,005 for the year ended December 31, 2023.

7. Accrued and other current liabilities

Following is a summary of accrued and other current liabilities at December 31, 2023:

	Amount
Accrued vacation	\$ 64,137
Laboratory loan out deposit	41,970
Contract payable - solar battery system	92,795
Contract payable - insurance	11,811
Accrued interest payable	7,467
Sales tax payable	1,674
Other current liabilities	2,463
	\$ 222,317

8. Note payable

Following is a summary of the note payable at December 31, 2023:

	Amount
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.	\$ 1,690,115
Less: Current maturities	(44,760)
	\$ 1,645,355

Interest expense, in connection with this note payable, was \$88,772, for the year ended December 31, 2023, which is included in interest expense.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

8. Note payable (continued)

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

<i>Year ending December 31,</i>	Amount
2024	\$ 44,760
2025	47,546
2026	49,855
2027	52,275
2028	54,813
Thereafter	1,440,866
	<u>\$ 1,690,115</u>

9. Capital lease

The Organization is the lessee of research equipment under a capital lease agreement which expired 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 \$7,264 for the year ended December 31, 2023, which is included in depreciation expense.

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 \$6,658 for the year ended December 31, 2023, which is included in interest expense.

Management elected not to adopt ASC 842 with respect to this finance lease as such adjustments would not be material to the consolidated financial statements.

10. Revenue from contracts with customers

Following is a summary of revenue from contracts with customers and deferred revenue at December 31, 2023:

	Revenue	Accrued and other current liabilities
Consulting fees	\$ 515,670	\$ -
Laboratory facilities loan out	280,855	41,970
	<u>\$ 796,525</u>	<u>\$ 41,970</u>

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

11. Leases

The Organization determines if an arrangement is a lease at inception, and properly classifies it as either an operating or financing lease. Right-of-Use (ROU) lease assets represent the Organization’s right to use an underlying asset for the lease term and lease obligations represent the Organization’s obligation to make lease payments arising from the lease.

With the adoption of ASC 842, operating lease arrangements are required to be recognized on the consolidated statement of financial position as a ROU asset and a corresponding lease liability. Operating leases are included in ROU lease assets – operating, net, current portion of lease liabilities – operating and long term lease liabilities – operating on the Organization’s consolidated statement of financial position. Financing leases are included in ROU lease assets – financing, net, current portion of lease liabilities – financing, and long-term lease liabilities – financing on the Organization’s consolidated statement of financial position. Operating and financing ROU lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating leases is recorded on a straight-line basis over the lease term by adding interest expense determined using the effective interest method to the amortization of the ROU asset. Lease amortization expense for financing leases is recognized on a straight-line basis over the lease term. Interest expense for financing leases is recognized using the effective interest method. Leases with an initial term of 12 months or less are not recorded on the consolidated statement of financial position and are not material.

Following is a summary of long-term operating leases and renewal options at December 31, 2023:

Description of Property	Minimum	Expiration Date	<u>Renewal Option</u>	
	Annual Rental		Term	Rent
Facility 120	\$ 3,850	January 2024	2 years	3%
Facility 140-144	56,367	April 2024	N/A	N/A
	<u>\$ 60,217</u>			

Subsequent to year-end, in April 2024, the Organization entered into a purchase agreement with the lessor to purchase the leased property facility 120 for approximately \$1,000,000.

Additionally, in April 2024, the Organization also amended the lease agreement for facility 140-144 to a month-to-month lease term for \$18,146 per month.

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

11. Leases (continued)

Following is a summary of the balance sheet classification of the Organization's ROU assets and lease liabilities as of December 31, 2023:

Lease costs	Classification	Amount
<i>Operating lease assets:</i>		
Facility operating lease right-of-use assets		\$ 58,853
<i>Operating lease liabilities:</i>		
Current portion of lease liabilities - operating		\$ 59,763

Following are lease cost components for the year ended December 31, 2023:

Lease costs	Classification	Amount
<i>Operating lease:</i>		
Fixed lease cost	Occupancy	\$ 213,658
<i>Weighted average remaining lease term:</i>		
Operating lease		4 months
<i>Weighted average discount rate:</i>		
Operating lease		6.50%

The Organization's accounting policy is to apply the Organization's line of credit interest rate as the discount rate used to measure the lease liabilities and ROU assets at the respective commencement dates. The rate at the adoption of the Organization's operating and administrative facility lease agreement was 6.5%.

Following is the estimated future lease payments as of December 31, 2023:

Year ending December 31,	Amount
2024	\$ 60,217
Interest expense	(454)
Present value of lease obligations	\$ 59,763

Oak Crest Institute of Science
Notes to the Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

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, 2023, the Organization made matching contributions to the plan of \$32,151.

13. Concentrations

Customer

The Organization received support from two contract agencies during 2023, which constituted 71% (49% and 22%) of total public support, revenue, and other income. At December 31, 2023, the Organization had a receivable balance of \$1,549,900 and \$218,637 from these contract agencies, respectively.

14. 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, 2023, reduced by amounts not available for general expenditures within one year.

	Amount
Cash	\$ 487,609
Receivables	1,879,832
Total financial assets	2,367,441
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	\$ 2,367,441

15. 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.

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal AL #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
Federal awards				
<i>Department of Health & Human Services National Institute of Health</i>				
Direct programs:				
National Institute of Allergy and Infectious Diseases				
A Bioresorbable Subdermal Implant for Sustained Delivery of Novel Maturation Inhibitor to Prevent HIV Infection *				
	93.855	R01AI154561	\$ 476,204	\$ 175,079
Systemic Sustained Release Delivery of Antiretroviral Agents for HIV Prevention *				
	93.855	1R01AI162151-01A1	689,317	245,065
Sustained Release of Potent Antiviral Prodrugs for HIV Prevention *				
	93.855	1R01AI172541-01A1	164,169	-
			1,329,690	420,144
Eunice Kennedy Shriver National Institute of Child Health and Human Development				
Next Generation Multipurpose Prevention Technology: An Intravaginal Ring for HIV Prevention and Nonhormonal Contraception *				
	93.865	R01HD101344	557,856	207,053
Total direct programs			1,887,546	627,197

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal AL #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
Federal awards				
Pass-through programs:				
Harvard University - Dana Farber Cancer Institute, Inc. Prevention of HIV-1 Transmission by Small-Molecule CD4-Mimetic Entry Inhibitors *	93.855	R01AI134494	\$ 38,600	\$ -
University of Massachusetts, Worcester Novel Immunotherapeutics Against Multidrug-Resistant Neisseria Gonorrhoea *	93.855	R01AI132296	54,875	-
Gonorrhea and HIV Prevention with Intravaginal Ring Drug Delivery *	93.855	R61AI136007	114,385	-
University of Massachusetts Medical School Sialic Acid Analogs Against Multidrug-Resistant Gonorrhea *	93.855	R01AI160247-01	150,683	
DFH Pharma Preclinical Dev't of 2nd Generation HIV Maturation Inhibitors *	93.855	R42AI155312	191,242	-
The Population Council An ETG/EE/GRFT IVR to Prevent Pregnancy and HIV *	93.855	1R01AI150360	191,173	-
Total pass-through programs			740,958	-
Total Department of Health and Human Services			2,628,504	627,197

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal AL #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
Federal awards				
<i>United States Agency for International Development</i>				
Pass-through programs:				
Magee-Womens Research Institute and Foundation				
Microbicide R&D to Advance HIV Prevention Technologies through Responsive Innovation and Excellence, MATRIX *	98.001	7200AA22CA00002	\$ 3,817,556	\$ 688,060
H3D Foundation				
Microbicide R&D to Advance HIV Prevention Technologies through Responsive Innovation and Excellence, MATRIX *	98.001	7200AA22CA00002	173,715	-
Total pass-through programs			3,991,271	688,060
Total United States Agency for International Development			3,991,271	688,060
<i>National Science Foundation</i>				
Pass-through programs:				
Cal Poly Pomona Foundation, Inc.				
Cross Sector Partnerships, Experiential Learning and Professional Development to Build Pathways to STEM Careers *	47.076	2311797	161,739	-
Total pass-through programs			161,739	-
Total National Science Foundation			161,739	-

**Oak Crest Institute of Science
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Grantor / Pass - Thru Grantor / Program Title	Federal AL #	Agency or Pass-thru #	Federal Expenditures	Expenditures to Subrecipients
<u>Research and development cluster</u>				
Federal awards				
<i>National Aeronautics & Space Administration</i>				
Pass-through programs:				
SETI Institute				
In-Situ Vent Analysis Divebot for Exobiology				
Research (InVADER) *	43.001	80NSSC18K1651	\$ 67,007	\$ -
Total pass-through programs			67,007	-
Total National Aeronautics & Space Administration			67,007	-
Total research and development cluster programs			6,848,521	1,315,257
<u>Other programs</u>				
Federal awards				
Pass-through programs:				
US Department of Commerce				
Monrovia - Oak Crest Science and Technology				
Incubator Program	11.020	ED19HDQ200079	138,307	-
Total other programs			138,307	-
Total federal awards			\$ 6,986,828	\$ 1,315,257

* 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, 2023

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 under programs of the federal government for the year ended December 31, 2023. 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, 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.

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, 2023:

Subrecipient	Contract Number				Total
	5R01AI 162151	R01AI 154561	R01DH 101344	7200AA22 CA00002	
C.D.C. Foundation	\$ -	\$ -	\$ -	\$ 11,753	\$ 11,753
DFH Pharma Inc.	-	55,090	-	-	55,090
Scripps Research Institute	139,672	-	-	128,031	267,703
University of North Carolina	-	-	207,053	-	207,053
University of Texas Medical Branch	65,401	95,016	-	132,487	292,904
Vanderbilt University	39,992	24,973	-	-	64,965
Weill Cornell Medical College	-	-	-	415,789	415,789
	\$ 245,065	\$ 175,079	\$ 207,053	\$ 688,060	\$ 1,315,257

4. Indirect cost rate

Oak Crest Institute of Science 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 CONSOLIDATED 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 consolidated financial statements of Oak Crest Institute of Science (a nonprofit organization), which comprise the statement of consolidated financial position as of December 31, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 10, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oak Crest Institute of Science's consolidated 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 consolidated financial statements. 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 organization'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

July 10, 2024

**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

Opinion on Each Major Federal Program

We have audited Oak Crest Institute of Science’s compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Oak Crest Institute of Science and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Oak Crest Institute of Science’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Oak Crest Institute of Science's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Oak Crest Institute of Science's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Oak Crest Institute of Science's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Oak Crest Institute of Science's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Oak Crest Institute of Science's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Oak Crest Institute of Science's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

July 10, 2024

**Oak Crest Institute of Science
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023**

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	AL No.
Research and development cluster	93.855
Research and development cluster	93.865
Research and development cluster	98.001
Research and development cluster	43.001
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?

Yes

No

**Oak Crest Institute of Science
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023**

B. Findings – consolidated financial statement audit

None.

C. Findings and questioned costs-major federal program audit

None.