



**Oak Crest Institute of Science**  
**Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**  
**and**  
**Independent Auditor's Report**

**Oak Crest Institute of Science**  
**Table of Contents**  
**As of and for the Year Ended December 31, 2022**

| <b>Report:</b>  | <b>Page</b> |
|---|-------------|
| Independent auditor's report on the consolidated financial statements   | 2           |
| <b>Financial statements:</b>  |             |
| Consolidated statement of financial position  | 5           |
| Consolidated statement of activities and changes in net assets  | 6           |
| Consolidated statement of functional expenses   | 7           |
| Consolidated statement of cash flows  | 8           |
| <b>Notes:</b>   |             |
| Notes to the consolidated financial statements  | 10          |
| <b>Schedule:</b>  |             |
| Schedule of expenditures of federal awards  | 23          |
| <b>Reports:</b>   |             |
| 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 | 28          |
| Independent auditor's report on compliance for each major program and on internal control over compliance required by uniform guidance  | 30          |
| <b>Schedule:</b>  |             |
| Schedule of findings and questioned costs   | 33          |

## 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, 2022, 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.

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, 2022, 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 September 8, 2023 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

September 8, 2023

**Oak Crest Institute of Science**  
**Consolidated Statement of Financial Position**  
**December 31, 2022**

**Assets**

| <b>Current assets:</b>                    | <b>Amount</b> |
|---|---------------|
| Cash                                      | \$ 314,516    |
| Receivables                               | 717,759       |
| Prepaid expenses                          | 159,376       |
| Total current assets                      | 1,191,651     |
| <b>Property and equipment:</b>            |               |
| Property and equipment, net               | 3,469,570     |
| <b>Other assets:</b>                      |               |
| Investment in a limited liability company | 2             |
| Right-of-use-assets - operating           | 260,213       |
| Security deposits                         | 15,650        |
| Other assets                              | 10,833        |
| Total other assets                        | 286,698       |
| Total assets                              | \$ 4,947,919  |

**Liabilities and Net Assets**

|  |              |
|--|--------------|
| <b>Current liabilities:</b>                      |              |
| Accounts payable                                 | \$ 471,676   |
| Line of credit                                   | 15,498       |
| Accrued and other current liabilities            | 126,532      |
| Current portion of long-term note payable        | 34,569       |
| Current portion of capital lease payable         | 14,481       |
| Current portion of lease liabilities - operating | 203,654      |
| Total current liabilities                        | 866,410      |
| <b>Long-term liabilities:</b>                    |              |
| Note payable                                     | 1,851,401    |
| Lease liabilities - operating                    | 59,763       |
| Total long-term liabilities                      | 1,911,164    |
| Total liabilities                                | 2,777,574    |
| <b>Net assets:</b>                               |              |
| Without donor restrictions                       | 2,170,345    |
| Total net assets                                 | 2,170,345    |
| Total liabilities and net assets                 | \$ 4,947,919 |

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, 2022**

|  | <u>Donor Restrictions</u> |             | <u>Amount</u> |
|--|---------------------------|-------------|---------------|
|  | <u>Without</u>            | <u>With</u> |               |
| <b>Public support:</b>                             |                           |             |               |
| Contributions and grants                           | \$ 57,452                 | \$ -        | \$ 57,452     |
| <b>Revenue and other income:</b>                   |                           |             |               |
| Program fees and contract service revenue          | 4,245,272                 | -           | 4,245,272     |
| Consulting fees                                    | 298,400                   | -           | 298,400       |
| Laboratory facilities loan-out                     | 77,558                    | -           | 77,558        |
| Miscellaneous income                               | 1,551                     | -           | 1,551         |
| Total revenue and other income                     | 4,622,781                 | -           | 4,622,781     |
| <b>Net assets released from restrictions:</b>      |                           |             |               |
| Restrictions satisfied by payments                 | -                         | -           | -             |
| Total public support, revenue,<br>and other income | 4,680,233                 | -           | 4,680,233     |
| <b>Operating expenses:</b>                         |                           |             |               |
| Program services                                   | 4,212,352                 | -           | 4,212,352     |
| Management and general                             | 913,479                   | -           | 913,479       |
| Total operating expenses                           | 5,125,831                 | -           | 5,125,831     |
| Net decrease in net assets                         | (445,598)                 | -           | (445,598)     |
| <b>Net assets:</b>                                 |                           |             |               |
| Net assets, beginning of year                      | 2,615,943                 | -           | 2,615,943     |
| Net assets, end of year                            | \$ 2,170,345              | \$ -        | \$ 2,170,345  |

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, 2022**

| <b>Description</b>                      | <b>Program<br/>Services</b> | <b>Mgt. &amp;<br/>General</b> | <b>Total</b>        |
|---|-----------------------------|-------------------------------|---------------------|
| Salaries and wages                      | \$ 1,034,557                | \$ 308,812                    | \$ 1,343,369        |
| Payroll taxes and employee benefits     | 171,127                     | 51,115                        | 222,242             |
| Conferences and meetings                | 8,555                       | 72                            | 8,627               |
| Dues and subscription                   | 2,749                       | 1,546                         | 4,295               |
| Occupancy                               | 161,018                     | 50,617                        | 211,635             |
| Furniture and equipment                 | 6,557                       | -                             | 6,557               |
| Insurance                               | 5,419                       | 73,570                        | 78,989              |
| Interest and finance charges            | 107,756                     | 3,177                         | 110,933             |
| Miscellaneous                           | -                           | 11,485                        | 11,485              |
| Materials for research project          | 499,373                     | -                             | 499,373             |
| Printing and reproduction               | 14,618                      | 424                           | 15,042              |
| Professional fees and contract services | 290,804                     | 274,865                       | 565,669             |
| Subcontractors                          | 1,285,870                   | -                             | 1,285,870           |
| Repairs and maintenance                 | 71,395                      | 15,982                        | 87,377              |
| Travel                                  | 11,596                      | 1,456                         | 13,052              |
| Utilities                               | 95,474                      | 30,298                        | 125,772             |
| Postage and delivery                    | 15,947                      | 117                           | 16,064              |
| Computer accessories and software       | 15,264                      | 6,579                         | 21,843              |
| Supplies                                | 44,899                      | 10,709                        | 55,608              |
| Depreciation and amortization           | 369,374                     | 72,655                        | 442,029             |
|   | <u>\$ 4,212,352</u>         | <u>\$ 913,479</u>             | <u>\$ 5,125,831</u> |
|   | <u>82%</u>                  | <u>18%</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, 2022**

| <b>Cash flows from operating activities:</b>   | <b>Amount</b> |
|--|---------------|
| Change in net assets   | \$ (445,598)  |
| <b>Adjustments to reconcile change in net assets<br/>to net cash provided by operating activities:</b> |               |
| Depreciation and amortization expense  | 442,029       |
| Loan fee amortization (interest expense)   | 987           |
| Amortization of operating leased assets  | 188,989       |
| <b>(Increase) decrease in:</b>   |               |
| Receivables  | (178,155)     |
| Prepaid expenses   | (100,140)     |
| Security deposits  | (400)         |
| <b>Increase (decrease) in:</b>   |               |
| Accounts payable   | 298,250       |
| Accrued and other current liabilities  | 28,005        |
| Lease liabilities - operating  | (185,785)     |
| Total adjustments  | 493,780       |
| Net cash provided by operating activities  | 48,182        |
| <b>Cash flows from investing activities:</b>   |               |
| Purchases of property and equipment  | (57,975)      |
| Net cash used by investing activities  | (57,975)      |
| <b>Cash flows from financing activities:</b>   |               |
| Net repayments under line of credit agreement  | (16,657)      |
| Principal payments on long-term notes payable  | (32,936)      |
| Principal payments on capital lease payable  | (40,710)      |
| Net cash used by financing activities  | (90,303)      |
| Net change in cash   | (100,096)     |
| Cash at beginning of year  | 414,612       |
| Cash at end of year  | \$ 314,516    |

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, 2022**

| <b>Supplemental disclosures of cash flow information:</b>                               | <b>Amount</b> |
|---|---------------|
| <b>Cash paid during year for:</b>   |               |
| Interest  | \$ 110,147    |
| Income taxes  | \$ -          |
| <br>  |               |
| <b>Supplemental disclosures of noncash investing and financing activities:</b>          |               |
| <i>Impact of change in accounting principle as of January 1, 2022 (Notes 1 and 11):</i> |               |
| Right-of-use assets - operating lease   | \$ 449,202    |
| Operating lease liabilities   | (449,202)     |
|   | \$ -          |

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, 2022**

**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, 2022**

**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, 2022**

**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, 2022, 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, 2022.

***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, 2022.

***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, 2022, 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; 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, 2022**

**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, 2022**

**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.

***New accounting standards***

***Leases***

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (ASC 842). This new standard is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities on the consolidated statement of financial position for the rights and obligations created by leases that extend more than 12 months. This accounting standard also requires additional disclosures surrounding the amount, timing and uncertainty of cash flows arising from leases. ASC 842 is effective for private companies for annual periods beginning after December 15, 2021, with early adoption permitted.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

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

*Leases (continued)*

The Organization adopted ASC Topic 842 as of January 1, 2022 using the modified retrospective method. The Organization has elected the practical expedients permitted in ASC 842. Accordingly, the Organization accounted for its existing operating leases as operating leases and capital leases as financing leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC 842, (b) whether classification of the leases would be different in accordance with ASC 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC 842 at lease commencement. The Organization also elected the hindsight practical expedient, which allows entities to use hindsight when determining the lease term and impairment of right-of-use assets. This standard did not have a material impact on the Organization's cash flows from operations or operating results. The most significant impact was the recognition of right-of-use assets and lease obligations for operating leases (see Note 11). Management elected not to adopt ASC 842 with respect to its finance lease as such adjustments would not be material to the consolidated financial statements (see Note 9).

*Gifts In-Kind*

In September 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958), which is effective for fiscal years beginning after June 15, 2021, with early adoption permitted, and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements.

The Organization adopted and implemented this pronouncement on January 1, 2022 using the prospective method of application. The adoption of ASU 2020-07 resulted in no material changes to the recognition of collections.

*Subsequent events*

The Organization has evaluated subsequent events through September 8, 2023 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.

**2. Receivables**

Following is a summary of receivables at December 31, 2022:

|  | <b>Amount</b> |
|--|---------------|
| Expense reimbursement contract receivables | \$ 717,759    |
| Less: Allowance for bad debt               | -             |
|  | \$ 717,759    |

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

**3. Prepaid expenses**

Following is a summary of prepaid expenses at December 31, 2022:

|                   | <b>Amount</b>     |
|-------------------|-------------------|
| Vendor deposits   | \$ 102,473        |
| Prepaid insurance | 34,534            |
| Prepaid rent      | 18,492            |
| Other prepayments | 3,877             |
|                   | <b>\$ 159,376</b> |

**4. Property and equipment**

Following is a summary of property and equipment – at cost, less accumulated depreciation, at December 31, 2022:

|                                | <b>Property and<br/>equipment</b> | <b>Capital lease<br/>equipment</b> | <b>Total</b> |
|--------------------------------|-----------------------------------|------------------------------------|--------------|
| Land                           | \$ 190,848                        | \$ -                               | \$ 190,848   |
| Building                       | 3,235,971                         | -                                  | 3,235,971    |
| Building improvements          | 205,967                           | -                                  | 205,967      |
| Leasehold improvements         | 174,256                           | -                                  | 174,256      |
| Machinery and equipment        | 2,227,264                         | 217,922                            | 2,445,186    |
| Office equipment               | 8,021                             | -                                  | 8,021        |
| Software                       | 52,358                            | -                                  | 52,358       |
|                                | 6,094,685                         | 217,922                            | 6,312,607    |
| Less: Accumulated depreciation | (2,632,379)                       | (210,658)                          | (2,843,037)  |
|                                | \$ 3,462,306                      | \$ 7,264                           | \$ 3,469,570 |

Depreciation expense charged to operations \$441,729 for the year ended December 31, 2022.

**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, 2022**

**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 2023) and is secured by a UCC filing on substantially all assets of the Organization. The interest rate at December 31, 2022 was 10.75%.

At December 31, 2022, the Organization had \$84,502 of unused line of credit, in connection with this agreement to be drawn upon as needed. Interest expense, in connection with this agreement, was \$1,741 for the year ended December 31, 2022.

**7. Accrued and other current liabilities**

Following is a summary of accrued and other current liabilities at December 31, 2022:

|                             | <b>Amount</b>     |
|-----------------------------|-------------------|
| Accrued vacation            | \$ 63,229         |
| Laboratory loan out deposit | 41,970            |
| Insurance contract payable  | 7,679             |
| Accrued interest payable    | 7,831             |
| Sales tax payable           | 3,898             |
| Other current liabilities   | 1,925             |
|                             | <b>\$ 126,532</b> |

**8. Note payable**

Following is a summary of the note payable at December 31, 2022:

|  | <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. | \$ 1,885,970        |
| Less: Current maturities included in current liabilities   | (34,569)            |
|  | <b>\$ 1,851,401</b> |

Interest expense, in connection with this note payable, was \$92,544, for the year ended December 31, 2022, 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, 2022**

**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> | <b>Amount</b>       |
|---------------------------------|---------------------|
| 2023                            | \$ 34,569           |
| 2024                            | 36,018              |
| 2025                            | 38,045              |
| 2026                            | 39,918              |
| 2027                            | 41,884              |
| Thereafter                      | 1,695,536           |
|                                 | <u>\$ 1,885,970</u> |

**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, 2022, which is included in depreciation expense.

Minimum future lease payments under this capital lease as of December 31, 2022 for each of the next year and in the aggregate are:

| <i>Year ending December 31,</i>            | <b>Amount</b>    |
|--|------------------|
| 2023                                       | \$ 16,911        |
| Thereafter                                 | -                |
| Total minimum lease payments               | 16,911           |
| Less: Interest component                   | (2,430)          |
| Present value of net minimum lease payment | <u>\$ 14,481</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 \$10,024 for the year ended December 31, 2022, 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.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

**10. Revenue from contracts with customers**

Following is a summary of revenue from contracts with customers and deferred revenue at December 31, 2022:

|                                | <b>Revenue</b>    | <b>Accrued and<br/>other current<br/>liabilities</b> |
|--------------------------------|-------------------|--|
| Consulting fees                | \$ 298,400        | \$ -   |
| Laboratory facilities loan out | 77,558            | 41,970   |
|                                | <b>\$ 375,958</b> | <b>\$ 41,970</b>                                     |

**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.

Prior to the adoption of ASC 842, the Organization’s operating facility lease was classified as an operating lease, and therefore, was not previously recognized on the Organization’s consolidated statement of financial position. Management elected not to adopt ASC 842 with respect to its finance lease as such adjustments would not be material to the consolidated financial statements (see Note 9). In connection with the Organization’s operating facility lease, the adoption of ASC 842 resulted in \$449,202 of operating lease right-of-use assets and operating lease liabilities being recorded on January 1, 2022.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

**11. Leases (continued)**

The Organization leases its facilities under non-cancellable operating lease agreements that expire in January 2024 and April 2024. The lease agreements do not include options to purchase the leased properties or any residual value guarantees. The lease agreements require the Organization to pay taxes, maintenance, insurance and other expenses and contain escalation clauses and renewal options.

Following is a summary of the balance sheet classification of the Organization's ROU assets and lease liabilities as of December 31, 2022:

|  | <b>Amount</b> |
|--|---------------|
| Operating lease assets:                          |               |
| Facility operating lease right-of-use assets     | \$ 260,213    |
| Operating lease liabilities:                     |               |
| Current portion of lease liabilities - operating | 203,654       |
| Lease liabilities - operating                    | 59,763        |
| Total operating lease liabilities                | 263,417       |

Following are lease cost components for the year ended December 31, 2022:

| <b>Lease costs</b>                            | <b>Classification</b> | <b>Amount</b> |
|---|-----------------------|---------------|
| <i>Operating lease:</i>                       |                       |               |
| Fixed lease cost                              | Occupancy             | \$ 211,635    |
| <i>Weighted average remaining lease term:</i> |                       |               |
| Operating lease                               |                       | 15 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%.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

**11. Leases (continued)**

Following is the estimated future lease payments as of December 31, 2022:

| <i>Year ending December 31,</i>    | <b>Amount</b>     |
|------------------------------------|-------------------|
| 2023                               | \$ 213,658        |
| 2024                               | 60,217            |
| Total                              | 273,875           |
| Interest expense                   | (10,458)          |
| Present value of lease obligations | <u>\$ 263,417</u> |

**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, 2022, the Organization made matching contributions to the plan of \$33,521.

**13. Concentrations**

*Customer*

The Organization received support from two contract agencies during 2022, which constituted 71% (42% and 29%) of total public support, revenue, and other income. At December 31, 2022, the Organization had a receivable balance of \$212,259 and \$466,794 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.

**Oak Crest Institute of Science**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Year Ended December 31, 2022**

**14. Liquidity and reserves (continued)**

The following table reflects the Organization’s financial assets as of December 31, 2022, reduced by amounts not available for general expenditures within one year.

|   | <b>Amount</b> |
|---|---------------|
| Cash  | \$ 314,515    |
| Receivables   | 717,759       |
| Total financial assets  | 1,032,274     |
| 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                           | \$ 1,032,274  |

**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, 2022**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title   | Federal<br>AL # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>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   |                 |                          |                         |                                  |
| A Bioresorbable Subdermal Implant for Sustained Delivery of<br>Novel Maturation Inhibitor to Prevent HIV Infection *           | 93.855          | R01AI154561              | \$ 648,187              | \$ 325,788                       |
| Next Generation Multipurpose Prevention Technology: An Intravaginal<br>Ring for HIV Prevention and Nonhormonal Contraception * | 93.865          | R01HD101344              | 747,199                 | 452,144                          |
| Systemic Sustained Release Delivery of Antiretroviral<br>Agents for HIV Prevention *   | 93.855          | 1R01AI162151-01A1        | 558,113                 | 164,214                          |
| Total direct programs  |                 |                          | 1,953,499               | 942,146                          |
| Pass-through programs:   |                 |                          |                         |                                  |
| University of Southern California  |                 |                          |                         |                                  |
| Molecular Mechanism Re: Homeostatic Control of<br>Synaptic Strength *  | 93.853          | R01NS091546              | 7,707                   | -                                |
| Harvard University - Dana Farber Cancer Institute, Inc.  |                 |                          |                         |                                  |
| Prevention of HIV-1 Transmission by Small-Molecule<br>CD4-Mimetic Entry Inhibitors *   | 93.855          | R01AI134494              | 79,059                  | -                                |
| Subtotal   |                 |                          | 86,766                  | -                                |

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title  | Federal<br>AL # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>Subrecipients |
|---|-----------------|--------------------------|-------------------------|----------------------------------|
| <u>Research and development cluster</u>   |                 |                          |                         |                                  |
| <b>Federal awards</b>   |                 |                          |                         |                                  |
| Pass-through programs:  |                 |                          |                         |                                  |
| University of Massachusetts   |                 |                          |                         |                                  |
| Novel Immunotherapeutics Against Multidrug-Resistant<br>Neisseria Gonorrhoea *                                  | 93.855          | R01AI132296              | \$ 51,535               | \$ -                             |
| Sialic Acid Analogs as Novel Immunotherapeutics<br>Against Multidrug-Resistant Gonorrhea *                      | 93.855          | R01AI160247              | 90,693                  | -                                |
| Gonorrhea and HIV Prevention with Intravaginal Ring<br>Drug Delivery *  | 93.855          | R61AI136007              | 72,179                  | -                                |
| Tulane University   |                 |                          |                         |                                  |
| Testing Novel Microbicide in Sustained Release Formulations *   | 93.855          | R01AI131433              |                         |                                  |
| DFH Pharma  |                 |                          |                         |                                  |
| Preclinical Dev't of 2nd Generation HIV Maturation Inhibitors *   | 93.855          | R42AI155312              | 101,577                 | -                                |
| Planet Biotech  |                 |                          |                         |                                  |
| An Immunotherapeutic to Prevent Gonorrhea *   | 93.855          | R44AI147930              | 43,980                  | -                                |
| University of Texas Galveston   |                 |                          |                         |                                  |
| Cervicovaginal Vaccine Delivery by Novel Pod Intravaginal<br>Rings for Therapeutic Immunization Against HSV-2 * | 93.855          | R21AI15375802            | 21,245                  | -                                |
| The Population Council  |                 |                          |                         |                                  |
| An ETG/EE/GRFT IVR to Prevent Pregnancy and HIV *   | 93.855          | 1R01AI150360             | 242,928                 | -                                |
| Total pass-through programs   |                 |                          | 710,903                 | -                                |
| Total Department of Health and Human Services   |                 |                          | 2,664,402               | 942,146                          |

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title  | Federal<br>AL # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>Subrecipients |
|---|-----------------|--------------------------|-------------------------|----------------------------------|
| <u>Research and development cluster</u>                   |                 |                          |                         |                                  |
| <b>Federal awards</b>                                     |                 |                          |                         |                                  |
| <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          | \$ 1,355,730            | \$ 343,724                       |
| Total pass-through programs                               |                 |                          | 1,355,730               | 343,724                          |
| Total United States Agency for International Development  |                 |                          | 1,355,730               | 343,724                          |
| <br><i>National Science Foundation</i>                    |                 |                          |                         |                                  |
| Pass-through programs:                                    |                 |                          |                         |                                  |
| Citrus Community College                                  |                 |                          |                         |                                  |
| Cross Sector Partnerships, Experiential Learning and      |                 |                          |                         |                                  |
| Professional Development *                                |                 |                          |                         |                                  |
|   | 47.076          | 1959594                  | 59,198                  | -                                |
| Total pass-through programs                               |                 |                          | 59,198                  | -                                |
| Total National Science Foundation                         |                 |                          | 59,198                  | -                                |
| Total research and development cluster programs           |                 |                          | 4,079,330               | 1,285,870                        |

**Oak Crest Institute of Science  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022**

| Federal Grantor / Pass - Thru<br>Grantor / Program Title | Federal<br>AL # | Agency or<br>Pass-thru # | Federal<br>Expenditures | Expenditures to<br>Subrecipients |
|--|-----------------|--------------------------|-------------------------|----------------------------------|
| <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            | \$ 165,942              | \$ -                             |
| Total other programs                                     |                 |                          | 165,942                 | -                                |
| Total federal awards                                     |                 |                          | \$ 4,245,272            | \$ 1,285,870                     |

\* 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, 2022**

**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, 2022. 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, 2022:

| <b>Subrecipient</b>                | <b>Contract Number</b>   |                         |                         |                             | <b>Total</b>        |
|------------------------------------|--------------------------|-------------------------|-------------------------|-----------------------------|---------------------|
|                                    | <b>5R01AI<br/>162151</b> | <b>R01AI<br/>154561</b> | <b>R01DH<br/>101344</b> | <b>7200AA22<br/>CA00002</b> |                     |
| DFH Pharma Inc.                    | \$ -                     | \$ 127,380              | \$ -                    | \$ -                        | \$ 127,380          |
| Scripps Research Institute         | 10,148                   | -                       | -                       | 190,136                     | 200,284             |
| University of North Carolina       | -                        | -                       | 452,144                 | -                           | 452,144             |
| University of Texas Medical Branch | 134,972                  | 104,770                 | -                       | 90,401                      | 330,143             |
| Vanderbilt University              | 19,094                   | 93,638                  | -                       | -                           | 112,732             |
| Weill Cornell Medical College      | -                        | -                       | -                       | 63,187                      | 63,187              |
|                                    | <b>\$ 164,214</b>        | <b>\$ 325,788</b>       | <b>\$ 452,144</b>       | <b>\$ 343,724</b>           | <b>\$ 1,285,870</b> |

**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, 2022, 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, and have issued our report thereon dated September 8, 2023.

**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

September 8, 2023

---

**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, 2022. 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, 2022.

***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

September 8, 2023

**Oak Crest Institute of Science  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2022**

**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  
None

• 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  
None

• 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

| <u>Name of Federal Program or Cluster</u> | <u>AL No.</u> |
|---|---------------|
| Research and development cluster          | 93.853        |
| Research and development cluster          | 93.855        |
| Research and development cluster          | 93.865        |
| Research and development cluster          | 98.001        |
| 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? \_\_\_\_\_

x Yes

\_\_\_\_\_ No

**Oak Crest Institute of Science  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2022**

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

None.

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

None.