



REPORTS OF INDEPENDENT AUDITORS IN ACCORDANCE
WITH AUDIT REQUIREMENTS FOR FEDERAL AWARDS
(UNIFORM GUIDANCE) AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

CHARLES R. DREW UNIVERSITY
OF MEDICINE AND SCIENCE

June 30, 2019 and 2018



MOSSADAMS

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Report of Independent Auditors

To the Board of Trustees
Charles R. Drew University of Medicine and Science

Report on the Financial Statements

We have audited the accompanying financial statements of Charles R. Drew University of Medicine and Science (the “University”), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles R. Drew University of Medicine and Science as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Also as discussed in Note 1 to the financial statements, as of and for the year ended June 30, 2019, the University adopted *Topic 606 – Revenue from Contracts with Customers* using the modified retrospective method applied to all contracts and the University adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, prospectively. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, on our consideration of the University'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 University'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 University's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
November 25, 2019

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Statements of Financial Position
(Rounded in Hundreds)

ASSETS		June 30,	
		<u>2019</u>	<u>2018</u>
ASSETS			
Cash and cash equivalents	\$	9,659,000	\$ 9,216,000
Restricted cash and cash equivalents (Note 2)		745,000	706,000
Grants and contracts receivable, net (Note 3)		7,601,400	9,264,400
Prepaid expenses and other assets		2,129,400	1,947,700
Deferred charge (Note 6)		913,700	1,006,500
Investments and investments held by others (Notes 4 and 5)		107,162,000	107,493,400
Property, plant, and equipment, net (Note 6)		<u>42,747,600</u>	<u>40,841,600</u>
 Total assets		 <u>\$ 170,958,100</u>	 <u>\$ 170,475,600</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$	1,600,700	\$ 1,787,000
Accrued expenses		5,824,600	3,686,600
Refundable advances (Note 9)		1,961,800	1,674,600
Notes payable (Note 7)		2,520,400	2,583,400
Bonds payable, net (Note 8)		31,591,200	31,899,000
Interest rate swap liability (Notes 5 and 8)		6,322,700	4,679,800
Deferred revenue		3,497,500	3,134,500
Obligations under capital leases (Note 10)		<u>129,700</u>	<u>188,400</u>
 Total liabilities		 <u>53,448,600</u>	 <u>49,633,300</u>
NET ASSETS			
Without donor restrictions		21,844,200	23,495,900
With donor restrictions (Note 12)		<u>95,665,300</u>	<u>97,346,400</u>
 Total net assets		 <u>117,509,500</u>	 <u>120,842,300</u>
 Total liabilities and net assets		 <u>\$ 170,958,100</u>	 <u>\$ 170,475,600</u>

Charles R. Drew University of Medicine and Science
(California Not-For-Profit Corporation)
Statements of Activities
(Rounded in Hundreds)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Tuition fees	\$ 19,458,200	\$ -	\$ 19,458,200	\$ 17,886,500	\$ -	\$ 17,886,500
Federal grants and contracts	14,791,300	-	14,791,300	12,744,300	-	12,744,300
State and local government grants and contracts	16,151,800	-	16,151,800	12,797,100	-	12,797,100
Private gifts, grants, and contracts	2,101,500	1,086,500	3,188,000	1,005,500	1,232,300	2,237,800
Auxiliary enterprises	810,300	-	810,300	1,265,400	-	1,265,400
Total revenue and support	53,313,100	1,086,500	54,399,600	45,698,800	1,232,300	46,931,100
NET ASSETS RELEASED FROM RESTRICTIONS	5,470,000	(5,470,000)	-	4,491,000	(4,491,000)	-
Total revenue and support and net assets released from restrictions	58,783,100	(4,383,500)	54,399,600	50,189,800	(3,258,700)	46,931,100
EXPENSES						
Instruction	14,244,100	-	14,244,100	10,878,700	-	10,878,700
Public service	1,636,400	-	1,636,400	1,664,000	-	1,664,000
Research	15,542,900	-	15,542,900	13,690,800	-	13,690,800
Academic support	7,367,200	-	7,367,200	6,475,400	-	6,475,400
Student services	1,746,400	-	1,746,400	1,804,200	-	1,804,200
Institutional support	14,310,600	-	14,310,600	14,279,700	-	14,279,700
Special events	1,281,500	-	1,281,500	1,015,000	-	1,015,000
Operation and maintenance of plant	2,322,700	-	2,322,700	2,182,300	-	2,182,300
Auxiliary enterprises	698,100	-	698,100	830,400	-	830,400
Total expenses	59,149,900	-	59,149,900	52,820,500	-	52,820,500
CHANGES IN NET ASSETS BEFORE OTHER CHANGES	(366,800)	(4,383,500)	(4,750,300)	(2,630,700)	(3,258,700)	(5,889,400)
OTHER CHANGES						
Investment return, net (Note 4)	358,000	2,702,400	3,060,400	206,000	8,295,400	8,501,400
Unrealized gain (loss) on interest rate swap (Note 8)	(1,642,900)	-	(1,642,900)	1,521,800	-	1,521,800
Total other changes	(1,284,900)	2,702,400	1,417,500	1,727,800	8,295,400	10,023,200
CHANGES IN NET ASSETS	(1,651,700)	(1,681,100)	(3,332,800)	(902,900)	5,036,700	4,133,800
NET ASSETS, beginning of year	23,495,900	97,346,400	120,842,300	24,398,800	92,309,700	116,708,500
NET ASSETS, end of year	\$ 21,844,200	\$ 95,665,300	\$ 117,509,500	\$ 23,495,900	\$ 97,346,400	\$ 120,842,300

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Statements of Cash Flows
(Rounded in Hundreds)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (3,332,800)	\$ 4,133,800
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,635,700	2,253,700
Provision for doubtful accounts	-	431,700
Amortization of bond issuance costs	15,400	15,400
Deferred charge	92,800	83,200
Unrealized gain on investments	(2,781,800)	(8,384,300)
Unrealized loss (gain) on interest rate swap	1,642,900	(1,521,800)
Changes in operating assets and liabilities, net of effects of non-cash transactions:		
Grants and contracts receivable	1,663,000	(1,416,700)
Prepaid expenses and other assets	(181,700)	639,700
Accounts payable	(186,300)	119,600
Accrued expenses	2,138,000	388,100
Refundable advances	287,200	8,400
Deferred revenue	363,000	57,500
Net cash provided by (used in) operating activities	2,355,400	(3,191,700)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(202,200)	(113,100)
Sales of investments	3,315,400	4,402,700
Purchases of property, plant, and equipment	(4,541,700)	(164,500)
Net cash (used in) provided by investing activities	(1,428,500)	4,125,100
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(63,000)	(58,600)
Principal payments on bonds payable	(323,200)	(205,000)
Principal payments on capital lease obligations	(58,700)	(46,300)
Net cash used in financing activities	(444,900)	(309,900)
NET CHANGE IN CASH AND CASH EQUIVALENTS	482,000	623,500
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, beginning of year	9,922,000	9,298,500
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, end of year	\$ 10,404,000	\$ 9,922,000

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Statements of Cash Flows (Continued)
(Rounded in Hundreds)

	For the Years Ended June 30,	
	<u>2019</u>	<u>2018</u>
SUMMARY OF CASH AND CASH FLOW INFORMATION		
Cash and cash equivalents	\$ 9,659,000	\$ 9,216,000
Restricted cash and cash equivalents	<u>745,000</u>	<u>706,000</u>
Total cash and cash equivalents and restricted cash and cash equivalents	<u><u>10,404,000</u></u>	<u><u>9,922,000</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>2,019,100</u></u>	<u><u>2,017,800</u></u>
SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION		
Purchases of equipment under capital lease obligations	<u><u>\$ 7,900</u></u>	<u><u>\$ 14,800</u></u>

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Overview – Charles R. Drew University of Medicine and Science (the “University”) is a non-profit educational institution, which is comprised of the College of Medicine, the College of Science and Health, the Mervyn M. Dymally School of Nursing (“School of Nursing”) and a variety of educational, research, and community programs. The University is an academic health sciences center developing students and ideas that improve the quality of health for medically underserved and multicultural populations.

Basis of financial statement presentation – The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The University has adopted the standard as of the beginning of its current fiscal year and applied it retrospectively to all periods presented, through inclusion of information about liquidity and availability of resources, inclusion of information provided about expenses, and changes to the presentation of net asset classification on the financial statements as described below.

The University recognizes unconditional contributions, including unconditional promises to give, as revenue in the period received. Revenue, gains, and losses are classified based on the existence or absence of restrictions imposed by donor or by law. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to stipulations imposed by donor or by law. Net assets without donor restrictions may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donor or by law that may or will be met, either by actions of the University and/or the passage of time. As restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Some net assets with donor restrictions are subject to donor-imposed stipulations that resources be maintained in perpetuity by the University. Investment income generated from these funds is available for general support by the University unless otherwise stipulated by the donor or by law. See Note 12.

In accordance with ASU 2016-14, net assets as of June 30, 2018, have been reclassified as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Unrestricted	\$ 23,495,900	\$ -
Temporary restricted	-	62,521,600
Permanently restricted	-	34,824,800
	<u> </u>	<u> </u>
Total net assets	<u>\$ 23,495,900</u>	<u>\$ 97,346,400</u>

**Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements**

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Cash and cash equivalents consist primarily of cash in bank accounts, money market accounts, and commercial paper with original maturities of three months or less.

Grants and contracts receivable and refundable advances – Grants and contracts receivable consist of expenses incurred by the University in connection with federal government, state, and local governments, and unconditional private enterprise awards for which individual applicable award agreements and/or notices stipulate payment to the University on a reimbursement basis. The payment of such receivables generally occurs within one year from which expenses are incurred. The allowance for doubtful grants and contracts receivable is an estimate calculated by the University's management based on grant and contract specific reserves, if any, and the age of overall grants and contracts receivable. Once a grant or contract receivable is deemed uncollectible, it is written off against the allowance for doubtful grant and contract accounts. On July 1, 2018, the University adopted ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This adoption had no material impact on the University's grant or contracts receivables.

Refundable advances consist of federal government, state, and local governments, and conditional private enterprise award amounts received in advance if the incurrence of corresponding individual award expenses in accordance with applicable award agreements and/or notices. Such liabilities are generally short-term in nature, whereby advanced funds are most commonly not received more than one year ahead of the incurrence of related expenses. (See Note 9.)

Investments – Investments are stated at fair value in accordance with U.S. GAAP framework for measuring fair value. This also includes certain pooled investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. U.S. GAAP allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

A substantial portion of the University's investments are invested with the University of California, Los Angeles ("UCLA") Foundation and UC Regents in the unitized endowed and short-term investment pools. The UCLA Foundation reports pooled investments in equity securities with readily determinable fair values and all debt securities at fair value based on quoted market prices. The pools also have investments which are reported at net asset value by the underlying funds, which approximate the fair value of such investments. Due to the nature of the investments held in the pools, changes in market conditions and the economic environment may significantly impact the net asset value of the pools and consequently, the fair value of the University's investment in the pools. Other University investments are held in investment funds whose values are also reported at net asset value, which approximates the fair value. Fair value of mutual funds is determined by using quoted prices of securities with similar characteristics. (See Notes 4 and 5.)

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Property, plant, and equipment – Property, plant, and equipment are stated at cost, or if contributed, at fair value at the date of contribution. Such assets are capitalized with a minimum threshold of \$5,000. Depreciation and amortization are computed on a straight-line basis over the lesser of the estimated useful life or lease term of each asset, which is 35 years for buildings and improvements and five years for furniture, equipment, and library books. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease.

The University records the asset associated with capital leases at the lesser of the minimum lease payments or the fair value of the equipment at the inception of the lease agreement. Depreciation and amortization expense include the depreciation of assets under capital leases.

The University reviews property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If an asset is determined to be impaired, impairment expense to be recognized is measured as the amount by which the carrying value of the asset exceeds its fair value.

During the years ended June 30, 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of property, plant, and equipment may not be recoverable.

Revenue recognition – On July 1, 2018, the University adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to all contracts. This adoption had no material impact on the University's recognized revenue.

Student tuition, fees, and auxiliary enterprises – Student tuition, fees, and auxiliary enterprises are recorded as revenue in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

Sponsored programs, grants, and contracts – The University's primary sources of revenue are from federal, state, and local government grants and contracts for research and development activities. Revenue from grants and contracts is reported as allowable expenditures, under applicable agreements, are incurred.

Private gifts – Private gifts, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Endowments – Endowments are subject to the restrictions of the underlying gift instruments requiring that the principal generally be invested in perpetuity and only the income be utilized for current and future needs.

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Functional expenses – Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on their relative use.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires the University's management to make estimates and assumptions that affect the reported amounts and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Accordingly, actual results could materially differ from those estimates.

Income taxes – The University is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is generally not subject to federal or state income taxes. However, the University is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of the University's management, is not material to the financial statements taken as a whole.

The University accounts for the uncertainty in income taxes in accordance with an interpretation issued by the FASB, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the University's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are required to be recorded as a tax benefit or expense in the current year. Additionally, this interpretation provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The University had no uncertain tax positions that were not considered more-likely-than-not of being sustained by applicable tax authorities as of both June 30, 2019 and 2018.

Concentration of credit risk – The University holds the majority of its operating cash and cash equivalents in major financial institutions. As of June 30, 2019, and at various times during the year then ended, the University's cash account balances exceeded the Federal Deposit Insurance Corporation (FDIC) insured limit. The University has not experienced and does not anticipate any losses related to balances at financial institutions in excess of FDIC insurance limits. The University also had cash, cash equivalents, and investments managed and held by the UCLA Foundation and the University of California ("UC") of approximately \$107,162,000 and \$107,493,400 as of June 30, 2019 and 2018, respectively. (See Note 4.)

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – The fair value of the University’s financial instruments as of June 30, 2019 and 2018, represent management’s best estimates of the amounts that would be received if sold in an orderly transaction between market participants as of the same dates. Such fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any, observable inputs, management’s own judgments about the assumptions of market participants were used in pricing the asset. Those judgments are developed by management based on the best information available in the circumstances.

The University uses a hierarchy for measuring the fair value of all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis.

Fair value is measured in levels, which are described in more detail below, and are determined based on the observability and reliability of the assumptions used to determine fair value.

Level 1 – Valuation inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 – Valuation inputs are those other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other observable inputs that can be corroborated by observable market data. Various factors, including current interest rates, spreads, and various trade activities may affect the quoted prices for such holding.

Level 3 – Valuation inputs are unobservable and supported by little or no market activity and are significant to the fair value of the assets or liabilities. These valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level inputs that are significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Securities classified within Level 3 investments are based on valuations provided by the external managers. The Investment Committee, in conjunction with external investment managers, monitors and analyzes the valuation of the investments. The Investment Committee reports to the Board of Regents. The valuations consider variables such as the financial performance of the investments along with other pertinent information.

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before financial statements are available to be issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before financial statements are available to be issued.

The University has evaluated subsequent events through November 25, 2019, which is the date the financial statements were available for issuance, and concluded that there were no other events or transactions that need to be disclosed.

Note 2 – Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash held at financial institutions in money market accounts whose use is limited by donors or debt agreements to specified purposes. The table below illustrates the composition of restricted cash and cash equivalents as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Donor-restricted funds (long-term)	\$ 347,700	\$ 341,000
Bond-redemption reserve	225,400	220,000
Reserves required by California Housing Finance Agency (CalHFA)	<u>171,900</u>	<u>145,000</u>
	<u>\$ 745,000</u>	<u>\$ 706,000</u>

Note 3 – Grants and Contracts Receivable

Grants and contracts receivable are expected to be collected in less than one year and consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Federal agencies	\$ 5,725,100	\$ 8,658,600
State and local governments	2,354,900	691,800
Private enterprises	<u>49,700</u>	<u>442,300</u>
	8,129,700	9,792,700
Allowance for doubtful accounts	<u>(528,300)</u>	<u>(528,300)</u>
Grants and contracts receivable, net	<u>\$ 7,601,400</u>	<u>\$ 9,264,400</u>

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Financial Statements

Note 4 – Investments and Investments Held by Others

Under the direction of agreements with the National Institutes of Health (“NIH”) (see Note 12), investments held by others represent funds invested in the UCLA Foundation’s and UC Regent’s endowed pool. The endowed pool is a unitized fund whereby the University participates in investment returns and income on an equivalent pro-rata basis with all participants in the pool.

Investments within the pools include money market accounts, equity securities, corporate and U.S. government bonds, and limited partnerships. The table presented below illustrates the composition of investments and investments held by others as of June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Investments:		
Short-term investments held by others (UC Regents)	\$ 17,868,700	\$ 17,219,900
Beneficial interest in assets held by others (UCLA Foundation)	<u>89,293,300</u>	<u>90,273,500</u>
	<u>\$ 107,162,000</u>	<u>\$ 107,493,400</u>

The composition of investment income for the years ended June 30, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 1,298,700	\$ 1,122,800
Realized and unrealized gains, net	2,781,800	8,384,300
Other investment expense, net	<u>(1,020,100)</u>	<u>(1,005,700)</u>
	<u>\$ 3,060,400</u>	<u>\$ 8,501,400</u>

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Note 5 – Fair Value Measurements

The following tables show the balances of these assets and liabilities based on their U.S. GAAP designated levels:

	June 30, 2019				Assets Held at Net Asset Value (or Equivalent)
	Total	Level 1	Level 2	Level 3	
Short-term investments held by others (UC Regents)	\$ 17,868,700	\$ -	\$ -	\$ -	\$ 17,868,700
Beneficial interest in assets held by others (UCLA Foundation)	89,293,300	-	-	-	89,293,300
Interest rate swap	(6,322,700)	-	(6,322,700)	-	-
	<u>\$ 100,839,300</u>	<u>\$ -</u>	<u>\$ (6,322,700)</u>	<u>\$ -</u>	<u>\$ 107,162,000</u>

	June 30, 2018				Assets Held at Net Asset Value (or Equivalent)
	Total	Level 1	Level 2	Level 3	
Short-term investments held by others (UC Regents)	\$ 17,219,900	\$ -	\$ -	\$ -	\$ 17,219,900
Beneficial interest in assets held by others (UCLA Foundation)	90,273,500	-	-	-	90,273,500
Interest rate swap	(4,679,800)	-	(4,679,800)	-	-
	<u>\$ 102,813,600</u>	<u>\$ -</u>	<u>\$ (4,679,800)</u>	<u>\$ -</u>	<u>\$ 107,493,400</u>

The University policy is to recognize transfers into and out of the various levels as of the actual date of the event or change in circumstances that caused the transfer.

The following table represents the liquidity and redemption restrictions on the above investments that do not have a readily determinable fair value and utilize net asset value, or its equivalent, per share to determine fair value as of June 30, 2019:

	Fair Value at June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short term investments held by others (UC Regents)	\$ 17,868,700	\$ -	Daily	2 days
Beneficial interest in assets held by others (UCLA Foundation) ^{a), b)}	89,293,300	-	Quarterly	90 days
Totals	<u>\$ 107,162,000</u>	<u>\$ -</u>		

^{a)} This investment consists of multiple individually invested amounts which have a one-year lockup restriction from the date of the individual investment and maximum redemption of either 25% of the fund quarterly or 15% of the fund annually.

^{b)} The Endowed Investment Pool has a long-term investment horizon and consists principally of equity securities, bonds, mutual funds and alternative investments, which are managed in a unitized investment pool. The alternative instruments include hedge funds, private equity and venture capital.

Investment strategy is long-term gain to support endowment activities while preserving original corpus.

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Note 6 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land improvements	\$ 2,131,200	\$ 1,051,800
Buildings and improvements	57,155,400	57,133,000
Leasehold improvements	1,063,000	988,900
Vehicles	295,900	295,900
Furniture, equipment, and library books	9,560,300	8,421,900
Equipment acquired under capital leases	650,800	642,900
Construction in progress	<u>2,588,000</u>	<u>368,500</u>
	73,444,600	68,902,900
Less: accumulated depreciation and amortization	<u>(30,697,000)</u>	<u>(28,061,300)</u>
Property, plant, and equipment, net	<u>\$ 42,747,600</u>	<u>\$ 40,841,600</u>

Buildings – During 1985, the University obtained the use of a building constructed and paid for under an agreement with The Regents of the University of California (the “Regents”). The building was capitalized at an original carrying value of \$4,160,700, which approximated the present value of the rental expense the University would be required to pay for similar facilities over the 35-year term of the lease. The University may be required to purchase the building if the agreement terminates before the end of the lease term or should the Regents be unable to otherwise satisfactorily dispose of the building.

If, after 35 years, the agreement for the building has not been terminated, the University will gain title to the building. As of June 30, 2019 and 2018, the amount of the contingent purchase price, in the event of agreement termination, was approximately \$49,800 and \$168,600, respectively, and declines monthly by approximately \$9,900.

In 1988, the University entered into a similar agreement, related to another building, whereby the University’s School of Allied Health Building (the “Allied Health Building”) and related land was sold to the Regents through a sale and leaseback agreement with a lease term of 35 years. The Allied Health Building was capitalized at an original carrying value of approximately \$3,807,400. The difference between the total amount capitalized and the actual cash received was approximately \$1,769,400. This amount was initially recorded as a deferred charge and deferred revenue and is being amortized over the term of the lease. As of June 30, 2019 and 2018, the deferred charge balance was approximately \$913,700 and \$1,006,500, respectively.

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Note 7 – Notes Payable

Notes payable consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Mortgage payable to CalHFA in monthly installments of \$15,000, including interest at 7.75% per annum, with the final payment in the year 2034, secured by real property. There was no accrued interest as of June 30, 2019 or 2018.	\$ 1,613,300	\$ 1,666,600
Mortgage payable, secured by a second deed or trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$513,100 and \$492,000 was accrued as of June 30, 2019 and 2018, respectively. Annual payments of principal and interest are to be made in an amount equal to 25% of annual residual receipts, as defined in the regulatory agreements with CalHFA. No residual payment was made for June 30, 2019 or 2018. The final payment will be in year 2034.	704,700	704,700
Mortgage payable, secured by a third deed of trust, payable to the County of Los Angeles Community Development Commission, bearing interest at 3% per annum. Monthly payment of principal and interest totals \$1,300. The final payment will be in year 2035. There was no accrued interest as of June 30, 2019 or 2018.	<u>202,400</u>	<u>212,100</u>
	<u>\$ 2,520,400</u>	<u>\$ 2,583,400</u>

Future minimum annual principal payments due under notes payable outstanding as of June 30, 2019, for the fiscal years ending June 30 and thereafter are as follows:

2020	\$ 67,400
2021	72,400
2022	77,700
2023	83,400
2024	90,000
Thereafter	<u>1,424,800</u>
	1,815,700
Repayments based on residual receipts due in 2034	<u>704,700</u>
	<u>\$ 2,520,400</u>

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Note 8 – Bonds Payable

Series 2014 bonds – On December 22, 2014, the University entered into an agreement with California Educational Facilities Authority for the issuance of \$32,875,000 of variable rate demand revenue bonds (the “series 2014 bonds”) for the retirement of the series 2007 bonds. The outstanding series 2014 bonds payable balance was approximately \$31,591,200 and \$31,899,000, as of June 30, 2019 and 2018, respectively, and is shown on the statements of financial position, net of debt issuance costs.

The series 2014 bonds bear interest at a variable rate determined monthly by the Wall Street Journal, 1 month LIBOR. The interest rates for the years ended June 30, 2019 and 2018, ranged from 4.72% to 5.17% and 3.41% to 4.19%, respectively. The interest rate was 5.05% and 3.51% as of June 30, 2019 and 2018, respectively.

Scheduled annual principal maturities on the series 2014 bonds outstanding as of June 30, 2019, for the fiscal years ending June 30 and thereafter are as follows:

2020	\$ 550,000
2021	630,000
2022	745,000
2023	860,000
2024	965,000
Thereafter	<u>27,890,000</u>
	<u>\$ 31,640,000</u>

Maturity – The series 2014 bonds are due to mature on November 1, 2042, subject to prior redemption, and are further subject to optional, extraordinary, or mandatory redemption.

Bond issuance costs – The University incurred approximately \$440,000 of bond issuance costs, which are reported as a direct deduction to the bond payable on the accompanying statements of financial position. The bond issuance costs are being amortized over the life of the bond. Amortization expense was approximately \$15,400 for the years ended June 30, 2019 and 2018, which has been included in institutional support expense in the accompanying statements of activities. The unamortized bond issuance costs amounted to approximately \$478,300 and \$386,000 as of June 30, 2019 and 2018, respectively.

Covenants and waivers – The series 2014 bonds have restrictive covenants measured every quarter, which include meeting certain debt coverage and leverage ratios, and maintaining sufficient cash to cover the University’s operating expenses for two months. Management believes the University was in compliance with the aforementioned covenants as of June 30, 2019 and 2018.

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Note 8 – Bonds Payable (continued)

Swap agreement – In connection with the original issuance of the series 2014 bonds, the University entered into an Interest Rate Swap Agreement (the “Swap Agreement”) with Piper Jaffray Financial Products, Inc. The Swap Agreement reduced the risk of interest rate changes with respect to the Bonds during the term of the agreement. The Swap Agreement was assigned by Piper Jaffray Financial Products, Inc. to Morgan Stanley Capital Services LLC (“Morgan Stanley”). The scheduled termination of the Swap Agreement is the same date as the final maturity of the series 2014 bonds, November 1, 2042.

Under the Swap Agreement, the University will pay Morgan Stanley, a fixed interest rate of 3.581% per annum, and Morgan Stanley, will pay the University a variable interest rate equal to 68% of 1 month LIBOR. The notional amount will be adjusted as the principal is reduced to equal the outstanding principal amount of the series 2014 bonds. The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes and does not speculate for investment purposes using derivative instruments. Changes in the fair value of the swap agreement are reported as unrealized gains (assets) or losses (liabilities) on interest rate swap related to bonds in the accompanying statements of activities.

At June 30, 2019 and 2018, respectively, a liability of \$6,322,700 and \$4,679,800 is included in liabilities with respect to the Swap Agreement. The change in the fair value of the Swap Agreement for the years ended June 30, 2019 and 2018, was \$1,642,900 and \$1,521,800, respectively, which is included as the differential in fair value of the Swap Agreement in the accompanying statements of activities.

Note 9 – Refundable Advances

Refundable advances consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Advances on grants and contracts:		
Federal agencies	\$ 1,701,600	\$ 1,427,000
State and local governments	119,500	119,400
Private enterprises	<u>140,700</u>	<u>128,200</u>
	<u>\$ 1,961,800</u>	<u>\$ 1,674,600</u>

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Note 10 – Commitments and Contingencies

Obligations under capital leases – The University leased certain equipment under capital lease agreements with values consisting of the following as of June 30, 2019 and 2018:

	2019	2018
Gross value of equipment under lease	\$ 313,100	\$ 313,100
Less: accumulated depreciation	(199,800)	(137,200)
Net book value	\$ 113,300	\$ 175,900

As of June 30, 2019, the estimated future minimum lease payments under capital leases were as follows:

Years Ending June 30:	
2020	\$ 77,600
2021	69,400
	147,000
Less: interest (4.15% - 4.85%)	(17,300)
Present value of future minimum payments	\$ 129,700

Grants – The University receives state and federal funds that are subject to review and audit by the grantor agencies. These programs are subject to program compliance audits by the grantor or their representatives and such audits could result in disallowed costs. The University’s management believes that any such disallowed costs would not have a material adverse effect on the financial position of the University.

A substantial portion of tuition is paid through the students’ participation in federally funded financial aid programs. Transfers of funds from the financial aid programs to the University are made in accordance with the U.S. Department of Education requirements. The financial aid and assistance programs are subject to political and budgetary considerations. The University’s administration of these programs is periodically reviewed by various regulatory agencies.

On September 15, 2010, the University entered into various agreements with the Regents, which effectively facilitated a grant from the State of California through the Regents to support the development and opening of the new School of Nursing. Under the agreements, if the University fails to maintain the School of Nursing in operation, then the Regents can terminate such agreements and use a portion of the Life Sciences Research and Nursing Education (“LSRNE”) building for its own academic purposes.

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Note 10 – Commitments and Contingencies (continued)

Legal matters – The University is subject to various litigation claims that arise in the ordinary course of business. It is the opinion of the University’s management, after consultation with its legal counsel, that the ultimate disposition of these matters will not have a material adverse effect on the University’s financial position. Related amounts are reflected in the accompanying statements of financial position in accrued expenses.

Note 11 – Retirement Plan

The University has a defined contribution, non-contributory retirement plan covering substantially all employees who have completed one year of service. The retirement contribution rates were 7% for the years ended June 30, 2019 and 2018. As such, the University had pension plan expense of \$1,545,900 and \$1,470,900 for the years ended June 30, 2019 and 2018, respectively.

Note 12 – Endowment Funds and Net Assets

Interpretation of relevant law – In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Trustees of the University, as authorized by California law, has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and duly appointed officers of the University, including University’s legal counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As result of this interpretation, the University classifies as restricted net assets the historic dollar value of assets held as donor-restricted endowments, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instrument.

Investment income, gains, and losses are reported as an increase or decrease in net assets with donor restrictions until those amounts are appropriated by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act.

Endowment funds with deficits – From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. There were no donor endowment deficits as of June 30, 2019 and 2018.

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Note 12 – Endowment Funds and Net Assets (continued)

Investment strategy – Consistent with the investment and prudent spending policies stated below, the investment strategy is as follows:

Preservation of capital – To minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market.

Long-term growth of capital – To seek long-term growth of principal.

Preservation of purchasing power – To seek return in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

Return objectives and risk parameters – The University has adopted investment and prudent spending policies for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. This policy is intended to provide for the safety of principal through diversification in a portfolio of common stocks, bonds, mutual funds, cash equivalents and other investments, including international equities and alternative investments, which may reflect varying rates of return. The objective of the endowment is to earn an average annualized total return of at least 5% per year over the long term, net of cost.

The investments are also diversified. This policy assumes that portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance. The University's management reevaluates this assumption on a regular basis.

Spending policy – The University's spending policy for endowment funds allows for the spending of 4.5% and 4% of the endowment principal invested for the years ended June 30, 2019 and 2018, respectively. In accordance with this policy, the University's Board of Trustees authorized spending of approximately \$3,544,800 and \$3,144,000 for the years ended June 30, 2019 and 2018, respectively.

Donor-restricted endowment – Beginning in 2002, the University received an initial \$4,000,000 and an additional \$5,000,000 in each of the five subsequent years from the NIH to establish endowment funds, which totaled \$29,000,000. The corpus of \$29,000,000 is to be maintained in perpetuity with the investment income earned from these funds used to support the following:

- The construction of a learning conference center, computer classroom, and two new seminar rooms
- Faculty and professional development, including creation of a faculty Research and Teaching Resource Center, and a comprehensive instructional program for faculty that will optimize the effectiveness of faculty as research mentors
- Enhancement of the University's research infrastructure through modernization of the existing learning resource center for students

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Note 12 – Endowment Funds and Net Assets (continued)

In addition to the NIH endowment, the University had other restricted endowments of approximately \$5,824,800 as of June 30, 2019 and 2018, the earnings of which are available for various restricted and unrestricted purposes, as permitted by law.

Term endowments – Beginning in 2008, the University received an initial \$5,000,000 term endowment contribution from NIH. The University received an additional \$5,000,000 in each of the years ended June 30, 2011, 2010 and 2009 from NIH. The corpus of \$20,000,000 is to be invested for a period of 20 years, after which such amount will be available for expenditure. During the grant period (20 years commencing on the date of each award), investment income on these funds are used to build the University’s research infrastructure and capacity, but may not be used to directly support research itself.

On September 19, 2011, the University was awarded an additional \$25,000,000 in endowment funds from NIH. The funds will be received by the University in \$5,000,000 annual increments during the years ending June 30, 2012 through June 30, 2016. The actual corpus received was \$24,675,000. The corpus of such awards is to be invested for a period of 20 years, after which such amount will be available for expenditure. During the grant period (20 years commencing on the date of each award) investment income on these funds are used to build the University’s research infrastructure and capacity, but may not be used to directly support research itself. In addition, the University also had other term endowments of approximately \$14,576,600 and \$15,419,000 as of June 30, 2019 and 2018, respectively.

The composition of endowment net assets by type is as follows:

	As of June 30, 2019		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted	\$ 94,076,400	\$ -	\$ 94,076,400
Board-designated	189,600	189,600	-
	<u>\$ 94,266,000</u>	<u>\$ 189,600</u>	<u>\$ 94,076,400</u>
	As of June 30, 2018		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted	\$ 94,918,800	\$ -	\$ 94,918,800
Board-designated	189,600	189,600	-
	<u>\$ 95,108,400</u>	<u>\$ 189,600</u>	<u>\$ 94,918,800</u>

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Note 12 – Endowment Funds and Net Assets (continued)

The changes in endowment net assets for the year ended June 30, 2019, is as follows:

	2019		
	Total	Without Donor Restrictions	With Donor Restrictions
June 30, 2018	\$ 95,108,400	\$ 189,600	\$ 94,918,800
Appropriations	(3,544,800)	-	(3,544,800)
Investment loss, net	(79,400)	-	(79,400)
Investment appreciation, net	2,781,800	-	2,781,800
June 30, 2019	<u>\$ 94,266,000</u>	<u>\$ 189,600</u>	<u>\$ 94,076,400</u>

The changes in endowment net assets for the year ended June 30, 2018, is as follows:

	2018		
	Total	Without Donor Restrictions	With Donor Restrictions
June 30, 2017	\$ 89,957,000	\$ 189,600	\$ 89,767,400
Appropriations	(3,144,000)	-	(3,144,000)
Investment loss, net	(88,900)	-	(88,900)
Investment appreciation, net	8,384,300	-	8,384,300
June 30, 2018	<u>\$ 95,108,400</u>	<u>\$ 189,600</u>	<u>\$ 94,918,800</u>

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Note 12 – Endowment Funds and Net Assets (continued)

A description of amounts classified as net assets with donor restrictions as of June 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Endowments:		
Portion of perpetual endowment funds required to be retained permanently by either explicit donor stipulation or law	\$ 34,824,800	\$ 34,824,800
Portion of term endowment funds subject to time restrictions	44,675,000	44,675,000
Accumulated earnings subject to time or purpose restriction(s)	<u>14,576,600</u>	<u>15,419,000</u>
Total endowments with donor restrictions	94,076,400	94,918,800
Other net assets with time and purpose restriction	<u>1,588,900</u>	<u>2,427,600</u>
Total net assets with donor restrictions	<u><u>\$ 95,665,300</u></u>	<u><u>\$ 97,346,400</u></u>

Note 13 – Liquidity and Availability

The University structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, the University invest cash in excess of its operating, capital expenditure, and debt service requirements in various investments according to its investment policy.

The University's financial assets available to meet general expenditures with one year of the statement of financial position date are:

Cash and cash equivalents	\$ 9,659,000
Investments, short-term	17,868,700
Grants and contracts receivable, net	<u>7,601,400</u>
	<u><u>\$ 35,129,100</u></u>

Additionally, the University has assets limited as to use for debt service, donor restrictions, and various required reserves. These assets limited as to use, which are more fully described in Note 1, are not available for general expenditure with the next year.

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Note 14 – Functional Allocation of Expenses

Functional expenses are allocated based on the nature of their activity. Expenses by function and nature consist of the following for the year ended June 30, 2019, with comparative totals for the year ended June 30, 2018:

	Instruction	Public Service	Research	Academic Support	Student Services	Institutional Support	Special Events	Operation and Maintenance of Plant	Auxiliary Enterprises	2019	2018
Salaries, wages and benefits	\$ 10,619,900	\$ 1,016,800	\$ 9,106,200	\$ 5,756,600	\$ 1,326,600	\$ 7,479,900	\$ 810,400	\$ 725,500	\$ -	\$ 36,841,900	\$ 32,235,400
Service, supplies and other expenses	3,608,800	614,600	3,144,000	1,596,000	368,700	4,533,600	471,000	625,900	601,000	15,563,600	15,192,600
Depreciation expense	-	-	2,538,600	-	-	-	-	-	97,100	2,635,700	2,562,900
Interest expense	-	-	-	-	-	2,069,000	-	-	-	2,069,000	2,044,200
Occupancy and utilities	15,400	5,000	754,100	14,600	51,100	228,100	100	971,300	-	2,039,700	785,400
Total operating expenses	\$ 14,244,100	\$ 1,636,400	\$ 15,542,900	\$ 7,367,200	\$ 1,746,400	\$ 14,310,600	\$ 1,281,500	\$ 2,322,700	\$ 698,100	\$ 59,149,900	\$ 52,820,500

Note 15 – Subsequent Events

On July 17, 2019, the University refinanced its series 2014 bonds (see Note 8), from an interest rate of 1 month LIBOR plus 2.65% to 1 month LIBOR plus 2.25%.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Charles R. Drew University of Medicine and Science

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Charles R. Drew University of Medicine and Science (the "University"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Los Angeles, California

November 25, 2019

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees
Charles R. Drew University of Medicine and Science

Report on Compliance for Each Major Federal Program

We have audited Charles R. Drew University of Medicine and Science's (the "University's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University 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 June 30, 2019.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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

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

Moss Adams LLP

Los Angeles, California
November 25, 2019

Charles R. Drew University of Medicine and Science Schedule of Expenditures of Federal Awards

Federal Grantor/Pass-through Grantor/Program and Cluster Title	Federal CFDA Number	Pass-Through Entity or Other ID Number	Passed-Through to Subrecipients	Expenditures Recognized
Research and Development Cluster:				
U.S. Department of Defense:				
HIV Treatment for Rwanda Defense Force	12.350	N00244-15-1-0035	\$ -	\$ 5,558
HIV Prevention in Angolan Military - Fourth Phase	12.350	N00244-18-1-0006	-	1,357,652
HIV Prevention in Angolan Military - Phase II	12.350	N/A	-	135,342
Subtotal U.S. Department of Defense			<u>-</u>	<u>1,498,552</u>
U.S. Department of Justice:				
Child Advocacy Center Program (Cal Governor OES)	16.575		-	389,934
Subtotal U.S. Department Justice			<u>-</u>	<u>389,934</u>
U.S. Department of Health and Human Services:				
National Institutes of Health				
DIDARP-CDU Diversty-Promotg Drug Abuse Prgm Passed through from University of Chicago	93.279	3R24DA017298-08	-	289,167
HIV Interventn Models, Criminal Justice-Black MSM	93.279	1R01DA039934-01	-	77,228
A Community Collaborative Effort to Reduce the Burden of Heart Disease in a Safe*	93.307	1R24MD007991-1	-	25,086
Mentored postdoctoral training in health disparities	93.307	1R25MD007610	-	(2,567)
Mentored postdoctoral training in translational research and biomedical information	93.307	2-RM25-MD007610-06	-	429,093
Novel Pathway Pathogenesis & Pathophysiology on NAFLD	93.307	N/A	-	16,835
Project Export	93.307	2P20MD000182-15	-	86,216
National Center Research Recourse Research and Education Advancement Center/Health	93.307	1P50RR1717401	-	4,000,000
Office of Academic Computing	93.307	1S21MD00235	-	15,000,000
Medical Science Institute Endowment	93.307	2S21MD00010305	-	10,000,000
Medical Science Institute Temporary Endowment	93.307	5S21MD00010307	-	15,000,000
Medical Science Institute Endowment	93.307	5S21MD00010310	-	5,000,000
Sustaining Faculty Development & Community Engagement	93.307	5S21MD00010311	-	24,675,000
NIH Endowment Interest Earned	93.307	N/A	-	797,450
Accelerating Excellence in Translational Sci(Axis)	93.307	2U54MD007598-06	-	3,513,539
Predicting Diabetic Retinopathy from Risk Factor Data and Digital Retinal Images Passed through University of California Los Angeles:	93.361	1R01LM012309-01A1	-	581,503
Clinical & Translational Science Institute	93.350	1ULTR001881	-	846,596
CTSI: Clinical & Translational Science Instit Prospective	93.350	UL1TR000124	-	(8,272)
CTSI: Drug Abuse Research Day and Diabetes Day	93.350	UL1TR000124	-	3,274
Mechanism Hyperglycemia-Associated BreastCancrRisk	93.779	1SC1CA200517-01	-	290,759
Investigational Interventions to Reduce Medication	93.779	1H0CMS331621-01-00	-	108,424

(continued)

**Charles R. Drew University of Medicine and Science
Schedule of Expenditures of Federal Awards (Continued)**

Federal Grantor/Pass-through Grantor/Program and Cluster Title	Federal CFDA Number	Pass-Through Entity ID Number	Passed-through to Subrecipients	Expenditures Recognized
Passed through University of California Davis:				
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	1U54CA143931-01		1,734
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	2U54CA143931-06	-	1,849,705
Role of adipose H6DPH in Type 2 Diabetes and Obesity	93.859	9SC1DK104821-06	-	205,505
Pilot Study of the Efficacy of mifipristone in males with Type 2 Diabetes	93.859	1SCG3M113767-01A1	-	83,962
Co-Targeting Obesity in Prostrate Cancer Chemo Therapy	93.859	N/A	-	70,128
Modulation of muscle ischemia repair by stem cells and of their damage by diabetes	93.859	1-SC2-GM122716-01	-	150,533
Role of CARF-Insulin Resist-Non Alcoholic Fatty Liver	93.859	N/A	-	31,902
Passed through University of California, Los Angeles:				
UCLA/CDU Partnership for Enhancing Diversity-Nurses	93.859	1900 G QA775	-	3,270
Follistatin promotes browning and influences energy metabolism	93.866	9SC1AG049682-05	-	75,720
Increased Chemoprevention by a mixture of 3 phytochemicals in Prostate Cancer	93.939	1R03CA208221-01A1	-	102,634
Training Primary Care Champions (AitaMed)subaward	93.844	N/A	-	16,200
USC-NIH Obesity in Public Housing	93.394	N/A	-	11,112
USC-NIH Obesity in Low Income Children Public Housing	93.394	N/A	-	17,529
Health Resources and Services Administration				
Passed through University of Southern California:				
AIDS Regional Education and Training Center	93.145	2948SC	-	220,334
Passed through American International Health Alliance				
Twining Center	93.266	H-FD-HBC-18-P-PTR-DREW-00	-	160,085
Office of Minority Health				
NIH/National Cancer Institute				
Salinomycin Targets Colorectal Cancer by Inhibiting	93.396	N/A	-	108,874
Beige Adipocytes & African American Breast Tumors	93.396	N/A	-	284,015
Subtotal U.S. Department of Health and Human Services			-	84,122,573
Total Research and Development Cluster			-	86,011,059

(continued)

Charles R. Drew University of Medicine and Science Schedule of Expenditures of Federal Awards (Continued)

Federal Grantor/Pass-through Grantor/Program and Cluster Title	Federal CFDA Number	Pass-Through Entity ID Number	Passed-through to Subrecipients	Expenditures Recognized
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Supplemental Educational Opportunity Grants Program	84.007	N/A	-	35,162
Federal Work-Study Program	84.033	N/A	-	96,759
Federal Pell Grant Program	84.063	N/A	-	501,394
Federal Direct Student Loans	84.268	N/A	-	22,730,928
Subtotal U.S. Department of Education			<u>-</u>	<u>23,364,243</u>
U.S. Department of Health and Human Services				
Health Resources and Services Administration				
Nurse Faculty Loan Program (beginning of year)	93.264	N/A	-	300,000
Subtotal U.S. Department of Health and Human Services			<u>-</u>	<u>300,000</u>
Total Student Financial Assistance Cluster				<u>23,664,243</u>
Other Programs:				
U.S. Department of Health and Human Services:				
Centers for Medicare and Medicaid Services:				
Ryan White Title III Outpatient EIS Program-Yr 16	93.918	2H7HA021631600	-	412,842
RWHAP Part C Capacity Development Program (HRSA)	93.918	2H7HA021631600	-	40,319
Subtotal Centers for Medicare and Medicaid Services:			<u>-</u>	<u>453,161</u>
Health Careers Opportunity Program	93.822		-	384,958
NIH/National Library of Medicine				
Environmental Health Curriculum-Outreach & Education Project	93.U01	HHSN27601400676P	-	4,300
Passed through University of California Los Angeles				
Bridging-Hlth Info Gap: SSA II & CDU Hlth Sci Lib	93.U01	5415PTA022	-	10,746
Subtotal U.S. Department of Health and Human Services:			<u>-</u>	<u>853,165</u>
U.S. Department of Education:				
Historically Black Colleges and Universities	84.031B	P031B141016	-	1,996,086
Subtotal U.S. Department of Education			<u>-</u>	<u>1,996,086</u>
Total Other Programs				<u>2,849,251</u>
Total Expenditures of Federal Awards				<u>\$ 112,524,553</u>

Charles R. Drew University of Medicine and Science
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Note 1 – General

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the activity for all federal award programs of Charles R. Drew University of Medicine and Science (the “University”) for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because it presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, activities, or cash flows of the University.

Note 2 – Basis of Presentation and 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.

The University has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3 – Federal Student Loan Programs

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University’s financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2019, consists of:

<u>Federal CFDA Number</u>	<u>Program name</u>	<u>Loans Outstanding at June 30, 2018</u>	<u>Loans Awarded During Fiscal 2019</u>	<u>Loan Principal Repaid / Cancelled Written Off / Assigned During Fiscal 2019</u>	<u>Loans Outstanding at June 30, 2019</u>
93.264	Nurse Faculty Loan Program	\$ 300,000	\$ -	\$ -	\$ 300,000

Note 4 – Endowment Award

The accompanying Schedule includes \$74,472,450 in grants which consist of \$73,675,000 in corpus and \$797,450 of interest earned on the cumulative endowment corpus which is considered program income in accordance with the grant award terms from the National University of Health (CFDA No. 93.307) to establish an endowment fund.

Charles R. Drew University of Medicine and Science
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2019

Note 4 – Endowment Award (continued)

Of the \$73,675,000 corpus, \$29,000,000 is to be maintained in perpetuity and the investment income will be used to support: (1) the construction of a learning conference center, computer classroom, and two new seminar rooms; (2) faculty and professional development, including creation of a faculty Research and Teaching Resource Center, and a comprehensive instructional program for faculty that will optimize the effectiveness of faculty as research mentors; and (3) enhancement of the University's research infrastructure through modernization of the existing learning resource center for students.

The remaining \$44,675,000 consists of term endowment funds, which allow for the use of the corpus 20 years after the end of the grant period. The investment income on these term endowment funds will be used to build the University's research infrastructure and capacity, but may not be used to directly support the research itself.

Charles R. Drew University of Medicine and Science
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I – Summary of Auditor’s 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
- Significant deficiency(ies)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes No

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 and Type of Auditors’ Report Issued on Compliance

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
Various	Research and Development Cluster	Unmodified
Various	Student Financial Assistance Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000
 Auditee qualified as a low-risk auditee under? Yes No

Section II – Financial Statement Findings

None reported.

Charles R. Drew University of Medicine and Science
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Section III – Findings and Questioned Costs Relating to Federal Awards

FINDING 2019-001 – Special Tests and Provisions – Enrollment Reporting – Significant Deficiency in Internal Controls

<i>CFDA Number</i>	<i>CFDA Program Title</i>	<i>Federal Agency</i>	<i>Award Year</i>	<i>Questioned Costs</i>
Various	Student financial assistance cluster	U.S Department of Education	2018-19	None noted

Criteria: The National Student Loan Data System (“NSLDS”) is the U.S Department of Education’s (“ED’s”) centralized database for students’ enrollment information. In accordance with the NSLDS Enrollment Reporting Guidelines (“Guide”), published by ED, the timeliness of reporting is important to ensure that students receive their entitled deferment benefits and it provides Congress with necessary enrollment and graduation rates of grant and loan recipients. It is the University’s responsibility to update this information. The University determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months. Schools must report enrollment changes within 30 days; however, if a roster file is expected within 60 days, the school may provide the updated data on that roster file (34 CFR section 685.309).

Condition/Context: In testing individual student status changes, we selected a sample of 22 students who had received student financial assistance and had withdrawn or graduated from the University during the 2018-19 fiscal year as identified by internal records. We compared the enrollment information and withdrawal or graduation date per the University’s records to the information reported to NSLDS. We noted the status changes for 2 graduated students and 2 withdrawn students were not reported to NSLDS timely. In discussing these exceptions with the Registrar, we determined this to be isolated instances rather than a systematic problem.

Cause: The University does not utilize batch reporting when responding to NSLDS roster files. All status changes are reported manually through the NSLDS website. In the case of these 4 exceptions, there was a delay in manual processing of web updates within the Registrar’s office.

Effect: Enrollment status is utilized by students, ED, the Direct Loan program, lenders, and other institutions to determine in-school status. NSLDS also uses the newly submitted enrollment data to recalculate a student’s 150% limit for direct subsidized loans to determine if loss or protection of the subsidy should occur. Therefore, this significant deficiency in enrollment reporting could result in incorrect future eligibility for undergraduate aid, as well as impact future subsidy loss or protection related to the 150% limit.

Recommendation: We recommend the University utilize batch reporting when responding to NSLDS roster files. Additionally, we recommend the University implement new procedures to ensure paperwork for all graduated and withdrawn students is processed timely by the Registrar.

Charles R. Drew University of Medicine and Science
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2019

Views of responsible officials and planned corrective actions: Management is developing a plan to evaluate inclusion of batch reporting in addition to adopting more formal processes and reminders to ensure all documentation is completed timely and there is formal tracking of status changes of the students.

**Charles R. Drew University of Medicine and Science
Management's Corrective Action Plan
For the Year Ended June 30, 2019**



November 18, 2019

Charles R. Drew University of Medicine and Science provides the following corrective action plan for the findings identified by Moss Adams LLP during the college's audit the year ending June 30, 2019.

The University acknowledges the finding and the recommendation from Moss Adams regarding improving procedures.

Finding-2019-001 Special Tests and Provisions-Enrollment Reporting-Significant Deficiency in Internal Controls

Improved Process of Protocol

The University will implement corrective action during November 2019 related to the filing of the NSLDS report. This will include considering using batch reporting when responding to NSLDS roster files, but due to the small size of our institute, this might not be a practical solution. In previous conversation with personnel at the NSLDS office, a recommendation to update manually in NSLDS would be a better option for a small school like CDU. Additionally, the department will implement new procedures to ensure the Registrar processes paperwork for all graduated and withdrawn students in a timely manner. Finally, the Institution will implement more formalized enrollment practices with school departments to ensure better record tracking of graduating students.

Sincerely,


Raquel Muñoz
Registrar

Charles R. Drew University of Medicine and Science
1731 East 120th St., Los Angeles, CA 90059 Office: 323-563-4839 Fax: 323-563-4837

Charles R. Drew University of Medicine and Science
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

None noted.