



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

**CHARLES R. DREW UNIVERSITY
OF MEDICINE AND SCIENCE**

June 30, 2021 and 2020



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 consolidated financial statements of Charles R. Drew University of Medicine and Science (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charles R. Drew University of Medicine and Science as of June 30, 2021 and 2020, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021, 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
December 8, 2021

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

		June 30,	
		2021	2020
ASSETS			
ASSETS			
Cash and cash equivalents	\$	27,220,300	\$ 19,534,000
Restricted cash and cash equivalents (Note 2)		6,067,000	12,884,700
Grants and contracts receivable, net (Note 3)		12,469,300	7,867,500
Prepaid expenses and other assets		4,710,100	2,582,200
Deferred charge (Note 6)		694,600	810,100
Investments and investments held by others (Notes 4 and 5)		133,287,800	106,499,100
Loan receivable (Note 15)		9,626,900	9,558,900
Property, plant, and equipment, net (Note 6)		55,045,200	53,275,000
Total assets	\$	<u>249,121,200</u>	<u>\$ 213,011,500</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$	2,509,800	\$ 4,057,100
Accrued expenses		9,558,400	9,480,300
Refundable advances (Note 9)		8,168,200	1,392,100
Notes payable (Note 7)		15,488,800	21,330,200
Bonds payable, net (Note 8)		30,624,700	31,159,300
Interest rate swap liability (Notes 5 and 8)		7,564,200	8,381,300
Deferred revenue		12,138,900	12,093,800
Obligations under Financing leases (Note 10)		496,900	59,900
Total liabilities		<u>86,549,900</u>	<u>87,954,000</u>
NET ASSETS			
Without donor restrictions		42,791,900	32,481,600
With donor restrictions (Note 12)		119,779,400	92,575,900
Total net assets		<u>162,571,300</u>	<u>125,057,500</u>
Total liabilities and net assets	\$	<u>249,121,200</u>	<u>\$ 213,011,500</u>

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

	For the Years Ended June 30,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Tuition fees, net	\$ 27,441,100	\$ -	\$ 27,441,100	\$ 24,615,000	\$ -	\$ 24,615,000
Federal grants and contracts	18,662,800	-	18,662,800	15,023,500	-	15,023,500
State and local government grants and contracts	20,848,000	-	20,848,000	25,963,400	-	25,963,400
Private gifts, grants, and contracts	2,096,900	4,546,500	6,643,400	1,946,700	2,085,800	4,032,500
Auxiliary enterprises	730,100	-	730,100	812,600	-	812,600
Total revenue and support	69,778,900	4,546,500	74,325,400	68,361,200	2,085,800	70,447,000
Transfer of net assets due to donor restrictions (Note 12)	-	-	-	-	-	-
NET ASSETS RELEASED FROM RESTRICTIONS	5,873,300	(5,873,300)	-	5,630,600	(5,630,600)	-
Total revenue and support and net assets released from restrictions	75,652,200	(1,326,800)	74,325,400	73,991,800	(3,544,800)	70,447,000
EXPENSES						
Instruction	20,451,500	-	20,451,500	17,110,100	-	17,110,100
Public service	2,532,900	-	2,532,900	1,406,900	-	1,406,900
Research	12,748,200	-	12,748,200	12,374,800	-	12,374,800
Academic support	9,344,600	-	9,344,600	8,058,000	-	8,058,000
Student services	2,351,200	-	2,351,200	1,863,900	-	1,863,900
Institutional support	19,427,300	-	19,427,300	14,948,000	-	14,948,000
Special events	164,200	-	164,200	115,900	-	115,900
Operation and maintenance of plant	4,828,900	-	4,828,900	4,752,100	-	4,752,100
Auxiliary enterprises	568,800	-	568,800	654,000	-	654,000
Total expenses	72,417,600	-	72,417,600	61,283,700	-	61,283,700
CHANGES IN NET ASSETS BEFORE OTHER NON-OPERATING CHANGES	3,234,600	(1,326,800)	1,907,800	12,708,100	(3,544,800)	9,163,300
OTHER CHANGES						
Investment return, net (Note 4)	738,600	28,530,300	\$29,268,900	(12,000)	455,400	443,400
Unrealized (loss) gain on interest rate swap (Note 8)	817,100	-	817,100	(2,058,700)	-	(2,058,700)
Gain on loan forgiveness	5,520,000	-	5,520,000	-	-	-
Total other changes	7,075,700	28,530,300	35,606,000	(2,070,700)	455,400	(1,615,300)
CHANGES IN NET ASSETS	10,310,300	27,203,500	37,513,800	10,637,400	(3,089,400)	7,548,000
NET ASSETS, beginning of year	32,481,600	92,575,900	125,057,500	21,844,200	95,665,300	117,509,500
NET ASSETS, end of year	\$ 42,791,900	\$ 119,779,400	\$ 162,571,300	\$ 32,481,600	\$ 92,575,900	\$ 125,057,500

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

	For the Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 37,513,800	\$ 7,548,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	3,121,800	2,850,400
Amortization of bond issuance costs	15,400	15,400
Deferred charge	115,500	103,600
Realized and unrealized (gain) on investments	(29,300,100)	(381,900)
Unrealized loss (gain) on interest rate swap	(817,100)	2,058,600
Gain on loan forgiveness	(5,520,000)	-
Changes in operating assets and liabilities, net of effects of non-cash transactions		
Grants and contracts receivable	(4,601,800)	(266,100)
Prepaid expenses and other assets	(2,127,900)	(452,800)
Accounts payable	(1,547,300)	2,456,400
Accrued expenses	78,100	3,655,700
Refundable advances	6,776,100	(569,700)
Deferred revenue	45,100	8,596,300
Net cash provided by operating activities	3,751,600	25,613,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(708,700)	(4,100,000)
Sales of investments	3,220,100	5,144,800
Loan receivable	(68,000)	(9,558,900)
Purchases of property, plant, and equipment	(4,455,000)	(13,377,800)
Net cash used in investing activities	(2,011,600)	(21,891,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	18,877,300
Principal payments on notes payable	(321,400)	(67,500)
Principal payments on bonds payable	(550,000)	(447,300)
Principal payments on capital lease obligations	-	(69,800)
Net cash (used in) provided by financing activities	(871,400)	18,292,700
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	868,600	22,014,700
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, beginning of year	32,418,700	10,404,000
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, end of year	\$ 33,287,300	\$ 32,418,700

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

	For the Years Ended June 30,	
	2021	2020
SUMMARY OF CASH AND CASH FLOW INFORMATION		
Cash and cash equivalents	\$ 27,220,300	\$ 19,534,000
Restricted cash and cash equivalents	6,067,000	12,884,700
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 33,287,300</u>	<u>\$ 32,418,700</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 1,884,800</u>	<u>\$ 2,043,200</u>
SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION		
New financing leases	<u>\$ 437,000</u>	<u>\$ -</u>

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

The CDU Foundation is a California nonprofit public benefit corporation, established during the year ended June 30, 2020. See Note 15 for more information on this entity.

Principles of consolidation – The consolidated financial statements include the accounts of the University and the CDU Foundation. All significant transactions between these entities have been eliminated in the consolidated financial statements.

Basis of consolidated financial statement presentation – The accompanying consolidated 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).

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 consolidated 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.

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.

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

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

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.

Refundable advances consist of federal government, state, and local governments and conditional private enterprise award amounts received in advance of 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.

Property, plant, and equipment – Property, plant, vehicles, 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. Land and land improvements are not depreciated.

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

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

The University records the asset or assets associated with financing 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 includes the depreciation of assets under financing 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, 2021 and 2020, there were no events or changes in circumstances indicating that the carrying amount of property, plant, and equipment may not be recoverable.

Student tuition, fees, and auxiliary enterprises – Tuition and fees revenue is recognized pro rata over the applicable period of instruction. A contract is entered into with a student and covers a course or semester. Revenue recognition occurs once a student starts attending a course. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The University determined there are no costs that are capitalized to obtain or to fulfill a contract with a customer.

Auxiliary enterprises include revenue from dining services and housing, and these revenues are recognized over the period the services are provided. Amounts received in advance of delivery of services are recorded as deferred revenue. The auxiliary enterprise expenses include all costs incurred in providing these services.

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. Revenue from sponsored programs, grants, and contracts that is nonreciprocal is treated like contributions. If the grant or contract is conditional, a barrier to entitlement and right of release exists. Revenue is recognized when the barrier and right of release is considered overcome and as allowable expenditures under such agreements are incurred, as an increase to net assets without restrictions. If the grant or contract is unconditional, revenue is reported as an increase in net assets without donor restrictions.

Private gifts – Private gifts, including unconditional promises to give, are recognized as revenues in the period pledged or received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Conditional promises to give are not recognized until they become unconditional; this is when the condition on which they depend and right of release are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of net assets with donor restrictions, and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions. All private gifts and other public support are included in net assets without donor restrictions unless specifically restricted by the donor or the terms of the gift or grant instrument.

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

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

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.

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 the time and effort of use. Functional expenses are allocated based on the nature of their activity.

Use of estimates – The preparation of consolidated 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 consolidated 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 consolidated financial statements taken as a whole.

The University accounts for the uncertainty in income taxes in accordance with an interpretation issued by the Financial Accounting Standards Board (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" to be 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 to be sustained by applicable tax authorities as of both June 30, 2021 and 2020.

Concentration of credit risk – The University holds the majority of its operating cash and cash equivalents in major financial institutions. As of June 30, 2021, 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 \$133,287,800 and \$106,499,100 as of June 30, 2021 and 2020, respectively. (See Note 4.) The University has not experienced any losses related to the balances held by the UCLA Foundation and does not anticipate losses because the UCLA Foundation is a reputable institution. Concentration of credit risk with respect to receivables is limited due to their source, which is mainly federal, state, and local governments.

Charles R. Drew University of Medicine and Science
(California Not-for-Profit Corporation)
Notes to Consolidated 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, 2021 and 2020, represents 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 are 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 basis.

Fair value is measured in levels, which are described in more detail below, and is 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.

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

The University has evaluated subsequent events through December 8, 2021, which is the date the consolidated financial statements were available for issuance and concluded that there were no other events or transactions that need to be disclosed.

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

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

Recent accounting pronouncements – In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The core principle of this ASU is that a lessee should recognize an asset and a liability for almost all leases. Lessees should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing their right to use the underlying asset for the lease term. On July 1, 2020, the University adopted this ASU using the retrospective method. The adoption had an insignificant impact on the University's financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The new standard removes and or modifies certain disclosures surrounding investments, including removal of certain Level 3 disclosures. The effective date of this ASU for not-for-profits is for fiscal years beginning after December 15, 2019. The University adopted this ASU in the current year. The adoption of the ASU did not have a significant impact on the University's financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new standard clarifies the presentation and disclosure of contributed nonfinancial assets. The effective date of this ASU for not-for-profits is for fiscal years beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The University is currently evaluating the effect ASU 2020-07 will have on its consolidated financial statements.

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, 2021 and 2020:

	2021	2020
Community program restricted funds (Note 15)	\$ 5,303,000	\$ 12,122,500
Donor-restricted funds (long-term)	399,200	383,000
Bond-redemption reserve	190,500	193,200
Reserves required by California Housing Finance Agency (CalHFA)	174,300	186,000
	<u>\$ 6,067,000</u>	<u>\$ 12,884,700</u>

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

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, 2021 and 2020:

	2021	2020
Federal agencies	\$ 8,665,600	\$ 6,763,100
State and local governments	3,836,100	1,632,700
Private enterprises	798,500	-
	13,300,200	8,395,800
Allowance for doubtful accounts	(830,900)	(528,300)
Grants and contracts receivable, net	<u>\$ 12,469,300</u>	<u>\$ 7,867,500</u>

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, 2021 and 2020:

	2021	2020
Investments		
Short-term investments held by others (UC Regents)	\$ 18,767,400	\$ 16,622,400
Beneficial interest in assets held by others (UCLA Foundation)	114,520,400	89,876,700
	<u>\$ 133,287,800</u>	<u>\$ 106,499,100</u>

The composition of investment returns for the years ended June 30, 2021 and 2020, was as follows:

	2021	2020
Interest and dividend income	\$ 1,784,300	\$ 942,300
Realized and unrealized gains, net	29,300,100	381,900
Other investment expense, net	(1,815,500)	(880,800)
	<u>\$ 29,268,900</u>	<u>\$ 443,400</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, 2021				
Total	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Short-term investments held by others (UC Regents)	\$ 18,767,400	\$ -	\$ -	\$ 18,767,400
Beneficial interest in assets held by others (UCLA Foundation)	114,520,400	-	-	114,520,400
Interest rate swap	(7,564,200)	(7,564,200)	-	-
<u>\$ 125,723,600</u>	<u>\$ -</u>	<u>\$ (7,564,200)</u>	<u>\$ -</u>	<u>\$ 133,287,800</u>
June 30, 2020				
Total	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Short-term investments held by others (UC Regents)	\$ 16,622,400	\$ -	\$ -	\$ 16,622,400
Beneficial interest in assets held by others (UCLA Foundation)	89,876,700	-	-	89,876,700
Interest rate swap	(8,381,300)	(8,381,300)	-	-
<u>\$ 98,117,800</u>	<u>\$ -</u>	<u>\$ (8,381,300)</u>	<u>\$ -</u>	<u>\$ 106,499,100</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, 2021:

	Fair Value at June 30, 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short term investments held by others (UC Regents)	\$ 18,767,400	\$ -	Daily	2 days
Beneficial interest in assets held by others (UCLA Foundation) ^{a), b)}	114,520,400	-	Quarterly	90 days
Totals	<u>\$ 133,287,800</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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land improvements	\$ 2,343,400	\$ 2,343,400
Buildings and improvements	63,771,500	66,983,100
Leasehold improvements	1,063,100	1,063,100
Vehicles	508,700	295,900
Furniture, equipment, and library books	12,527,800	12,434,200
Equipment acquired under capital leases	841,900	650,800
Construction in progress	<u>10,658,000</u>	<u>3,051,900</u>
	91,714,400	86,822,400
Less: accumulated depreciation and amortization	<u>(36,669,200)</u>	<u>(33,547,400)</u>
Property, plant, and equipment, net	<u><u>\$ 55,045,200</u></u>	<u><u>\$ 53,275,000</u></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, 2021 and 2020, the amount of the contingent purchase price, in the event of agreement termination, was approximately \$0.

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 were 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, 2021 and 2020, the deferred charge balance was approximately \$694,600 and \$810,100, respectively.

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Note 7 – Notes Payable

In April 2020, the University was granted a loan under the Paycheck Protection Program offered by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), Section 7(a)(36) of the Small Business Act for \$5,520,000. The loan borne interest at 1% with no payments for the first 6 months. Monthly payments of principal and interest of approximately \$310,000 began in November 2020. The loan was subject to partial or full forgiveness if the University used all the proceeds for eligible purposes, maintains certain employment levels, and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance. In June 2021, the University received full forgiveness on its loan.

Notes payable consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Note payable related to the Community Programs (Note 15)	\$ 13,660,000	\$ 13,660,000
Loan payable related to the CARES Act	-	5,520,000
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, 2021 or 2020.	941,900	1,253,100
Mortgage payable, secured by a second deed of trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$555,400 and \$534,200 was accrued as of June 30, 2021 and 2020, 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, 2021 or 2020. 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, 2021 or 2020.	182,200	192,400
	<u>\$ 15,488,800</u>	<u>\$ 21,330,200</u>

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Note 7 – Notes Payable (continued)

Future minimum annual principal payments due under notes payable outstanding as of June 30, 2021, for the fiscal years ending June 30 and thereafter are as follows:

2022	\$ 77,100
2023	82,800
2024	88,900
2025	95,400
2026	102,500
Thereafter	<u>14,337,400</u>
	14,784,100
Repayments based on residual receipts due in 2034	<u>704,700</u>
	<u><u>\$ 15,488,800</u></u>

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 \$31,090,000 and \$31,640,000 as of June 30, 2021 and 2020, respectively, and is shown on the consolidated 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, one month LIBOR. The interest rates for the years ended June 30, 2021 and 2020, ranged from 2.69% to 2.83% and 2.82% to 5.00%, respectively. The interest rate was 2.74% and 2.83% as of June 30, 2021 and 2020, respectively.

Scheduled annual principal maturities on the series 2014 bonds outstanding as of June 30, 2021, for the fiscal years ending June 30 and thereafter are as follows:

2022	\$ 630,000
2023	745,000
2024	860,000
2025	965,000
2026	1,005,000
Thereafter	<u>26,419,700</u>
	<u><u>\$ 30,624,700</u></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.

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Note 8 – Bonds Payable (continued)

Bond issuance costs – The University incurred approximately \$565,600 of bond issuance costs, which are reported as a direct deduction to the bonds payable on the accompanying consolidated 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, 2021 and 2020, which has been included in institutional support expense in the accompanying consolidated statements of activities. The unamortized bond issuance costs amounted to approximately \$465,300 and \$480,700 as of June 30, 2021 and 2020, 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, 2021 and 2020.

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 series 2014 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 3.58% per annum, and Morgan Stanley will pay the University a variable interest rate equal to 68% of one 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. The University measures the fair value of the swap as the amount required to settle the swap. 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 consolidated statements of activities.

At June 30, 2021 and 2020, respectively, a liability of \$7,564,200, and \$8,831,300 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, 2021 and 2020, was \$817,100 and (\$2,058,700), respectively, which is included as the unrealized (loss) gain on interest rate swap in the accompanying consolidated statements of activities.

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Note 9 – Refundable Advances

Refundable advances consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Advances on grants and contracts		
Federal agencies	\$ 3,434,200	\$ 1,157,800
State and local governments	987,000	169,500
Private enterprises	3,747,000	64,800
	<u>\$ 8,168,200</u>	<u>\$ 1,392,100</u>

Note 10 – Commitments and Contingencies

Obligations under financing leases – The University leased certain equipment under lease agreements with values consisting of the following as of June 30, 2021 and 2020:

	2021	2020
Gross value of equipment under lease	\$ 825,300	\$ 313,100
Less: accumulated depreciation	<u>(337,700)</u>	<u>(262,400)</u>
Net book value	<u>\$ 487,600</u>	<u>\$ 50,700</u>

As of June 30, 2021, the estimated future minimum lease payments under financing leases were approximately \$75,300 for the year ended June 30, 2021. These financing leases have interest rates ranging from 4.15% to 4.85%. The estimated present value of these future minimum lease payments is approximately \$496,900. This includes interest payments of approximately \$61,500.

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 consolidated 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.

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Note 10 – Commitments and Contingencies (continued)

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.

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 consolidated statements of financial position in accrued expenses.

COVID-19 – In March 2020, the World Health Organization declared coronavirus COVID-19 (the "Virus") a global pandemic. This contagious disease has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the University's. The effects of COVID-19 could be averse to the University's operations, but it is unable to determine what the impact and extent of that impact will be at this time, due to the level of uncertainty surrounding the Virus.

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, 2021 and 2020. As such, the University had retirement plan expense of \$1,793,100 and \$1,637,900 for the years ended June 30, 2021 and 2020, 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 a 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.

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Note 12 – Endowment Funds and Net Assets (continued)

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, 2021 and 2020.

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 attempt 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% of the endowment principal invested for the years ended June 30, 2021 and 2020, respectively. In accordance with this policy, the University's Board of Trustees authorized spending of approximately \$3,315,400 for the years ended June 30, 2021 and 2020, 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

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Note 12 – Endowment Funds and Net Assets (continued)

- Enhancement of the University's research infrastructure through modernization of the existing learning resource center for students

In addition to the NIH endowment, the University had other restricted endowments of approximately \$5,824,800 as of June 30, 2021 and 2020, the earnings of which are available for various 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 is 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 is 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 \$40,477,200 and \$11,716,600 as of June 30, 2021 and 2020, respectively.

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Note 12 – Endowment Funds and Net Assets (continued)

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

	As of June 30, 2021		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted	\$ 117,169,900	\$ -	\$ 117,169,900
Board-designated	189,600	189,600	-
	<u>\$ 117,359,500</u>	<u>\$ 189,600</u>	<u>\$ 117,169,900</u>
	As of June 30, 2020		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted	\$ 91,216,400	\$ -	\$ 91,216,400
Board-designated	189,600	189,600	-
	<u>\$ 91,406,000</u>	<u>\$ 189,600</u>	<u>\$ 91,216,400</u>

The changes in endowment net assets for the year ended June 30, 2021, is as follows:

	2021		
	Total	Without Donor Restrictions	With Donor Restrictions
June 30, 2020	\$ 91,406,000	\$ 189,600	\$ 91,216,400
Appropriations	(3,315,400)	-	(3,315,400)
Investment gain, net	458,700	-	458,700
Investment appreciation, net	28,810,200	-	28,810,200
June 30, 2021	<u>\$ 117,359,500</u>	<u>\$ 189,600</u>	<u>\$ 117,169,900</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, 2020, are as follows:

	2020		
	Total	Without Donor Restrictions	With Donor Restrictions
June 30, 2019	\$ 94,266,000	\$ 189,600	\$ 94,076,400
Appropriations	(3,315,400)	-	(3,315,400)
Investment gain, net	73,500	-	73,500
Investment appreciation, net	381,900	-	381,900
June 30, 2020	<u>\$ 91,406,000</u>	<u>\$ 189,600</u>	<u>\$ 91,216,400</u>

A description of amounts classified as net assets with donor restrictions as of June 30, 2021 and 2020, is as follows:

	2021	2020
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>37,670,100</u>	<u>11,716,600</u>
Total endowments with donor restrictions	117,169,900	91,216,400
Other net assets with time and purpose restriction	<u>2,609,500</u>	<u>1,359,500</u>
Total net assets with donor restrictions	<u>\$ 119,779,400</u>	<u>\$ 92,575,900</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 invests cash in excess of its operating, capital expenditure, and debt service requirements in various investments according to its investment policy.

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Note 13 – Liquidity and Availability (continued)

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

	2021	2020
Cash and cash equivalents	\$ 27,220,300	\$ 19,534,000
Investments, short-term	18,767,400	16,622,400
Grants and contracts receivable, net	12,469,300	7,867,500
	<u>\$ 58,457,000</u>	<u>\$ 44,023,900</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 within the next year.

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 years ended June 30, 2021 and 2020:

	Instruction	Public Service	Research	Academic Support	Student Services	Institutional Support	Special Events	Operation and Maintenance of Plant	Auxiliary Enterprises	2021
Salaries, wages, and benefits	\$ 14,434,600	\$ 1,719,200	\$ 9,007,500	\$ 6,685,800	\$ 2,116,000	\$ 8,595,000	\$ 106,400	\$ 582,000	\$ -	\$ 43,246,500
Service, supplies, and other expenses	6,016,700	809,900	3,712,000	2,649,700	154,400	8,305,800	57,800	474,300	-	22,180,600
Depreciation expense	-	-	-	-	-	333,100	-	2,691,600	97,100	3,121,800
Interest expense	-	-	-	-	-	1,939,100	-	-	-	1,939,100
Occupancy and utilities	200	3,800	28,700	9,100	80,800	254,300	-	1,081,000	471,700	1,929,600
Total operating expenses	<u>\$ 20,451,500</u>	<u>\$ 2,532,900</u>	<u>\$ 12,748,200</u>	<u>\$ 9,344,600</u>	<u>\$ 2,351,200</u>	<u>\$ 19,427,300</u>	<u>\$ 164,200</u>	<u>\$ 4,828,900</u>	<u>\$ 568,800</u>	<u>\$ 72,417,600</u>

	Instruction	Public Service	Research	Academic Support	Student Services	Institutional Support	Special Events	Operation and Maintenance of Plant	Auxiliary Enterprises	2020
Salaries, wages, and benefits	\$ 12,519,100	\$ 878,900	\$ 9,696,400	\$ 5,939,000	\$ 1,592,500	\$ 6,716,200	\$ 102,800	\$ 709,900	\$ -	\$ 38,154,800
Service, supplies, and other expenses	4,590,600	528,000	2,655,800	2,099,700	197,800	5,799,800	13,100	453,100	-	16,337,900
Depreciation expense	-	-	-	-	-	72,200	-	2,681,100	97,100	2,850,400
Interest expense	-	-	-	-	-	2,120,500	-	-	-	2,120,500
Occupancy and utilities	400	-	22,600	19,300	73,600	239,300	-	908,000	556,900	1,820,100
Total operating expenses	<u>\$ 17,110,100</u>	<u>\$ 1,406,900</u>	<u>\$ 12,374,800</u>	<u>\$ 8,058,000</u>	<u>\$ 1,863,900</u>	<u>\$ 14,948,000</u>	<u>\$ 115,900</u>	<u>\$ 4,752,100</u>	<u>\$ 654,000</u>	<u>\$ 61,283,700</u>

Note 15 – Community Programs

In 2019, the University began construction on a building with the intention of creating a Federally Qualified Health Center operated by Aids Project Los Angeles, a student center, and a grand campus entry. Given the location of the construction, the project is eligible for new market tax credits ("NMTC"), a federal funding program to incentivize investment in low-income communities. The University partnered with a corporate investor and two community development entities ("CDEs") to obtain approximately \$5,460,000 in NMTC funding, which resulted in approximately \$2,750,000 of additional funding for the project.

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Note 15 – Community Programs (continued)

The CDU Foundation was created to act as the leveraged lender in the structure. The University can appoint the majority of the entity's Board members. Additionally, the University signed as guarantor on the CDU Foundation loan agreements. As such, the CDU Foundation is financially controlled by and has been consolidated with the University in these consolidated financial statements and notes thereto.

As a result of the transaction, the University has a note receivable from the corporate investor. The interest rate per annum is 1.66%. The University will receive quarterly interest-only payments through January 2027. The University will receive interest and principal payments from March 2027 through December 2045. The loan is secured by the corporate investor's equity interest in the CDEs.

Additionally, the University has a note payable to the CDEs (Note 7). The interest rate per annum is 1.44%. The University will make quarterly interest-only payments through maturity in January 2050. The loan is secured by a first mortgage on the building and improvements. Loan proceeds are required to be held in separate bank accounts, accessible by the University only as authorized by the lenders in connection with construction expenditures, and as such are presented as restricted cash on the consolidated statements of financial position.

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 consolidated financial statements of Charles R. Drew University of Medicine and Science (the "University"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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*.

The University's Response to Finding

The University's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
December 8, 2021

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, 2021. 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, 2021.

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

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

Moss Adams LLP

Los Angeles, California
December 8, 2021

Supplementary Information

Charles R. Drew University of Medicine and Science

Schedule of Financial Responsibility Ratios

For the Year Ended June 30, 2021

Primary Reserve Ratio Calculation	Reference	June 30, 2021
Net assets without donor restrictions	SOFP	\$ 42,791,900
Net assets with donor restrictions	SOFP	<u>119,779,400</u>
 Total net assets		 162,571,300
Less		
Annuities with donor restrictions	Note 12	(44,675,000)
Term endowments with donor restrictions	n/a	-
Life income funds with donor restrictions	n/a	-
Net assets with donor restrictions: restricted in perpetuity (less annuities)	Note 12	(34,824,800)
Net assets with donor restrictions: other (for purpose or time less annuities)	Note 12	(40,279,600)
Unsecured related-party receivables	n/a	-
Unsecured other related-party assets	n/a	-
Property, plant, and equipment – pre-implementation	*	(44,674,300)
Property, plant, and equipment – post-implementation with outstanding debt for original purchase	n/a	-
Property, plant, and equipment – post-implementation without outstanding debt for original purchase	*	-
Construction in progress	*	(10,370,900)
Lease right-of-use asset pre-implementation	n/a	-
Lease right-of-use asset post-implementation	n/a	-
Intangible assets	n/a	-
Add		
Post-employment and pension liabilities	n/a	-
Long-term debt for long-term purposes pre-implementation	†	46,113,500
Long-term debt for long-term purposes post-implementation	n/a	-
Line of credit for construction in progress	n/a	-
Pre-implementation right-of-use lease liabilities	n/a	-
Post-implementation right-of-use lease liabilities	n/a	<u>-</u>
 Total expendable net assets		 <u>\$ 33,860,200</u>
 Total expenses without donor restrictions	SOA	 72,417,600
Add		
Non-operating and net investment losses	n/a	-
Other components of net periodic pension costs	n/a	-
Change in value of split-interest agreements	n/a	-
Other losses	n/a	-
Net investment losses	n/a	-
Pension – related changes other than net periodic costs	n/a	<u>-</u>
 Total expenses without donor restrictions and losses without donor restrictions		 <u>\$ 72,417,600</u>
 Primary reserve ratio		 0.5

† See reconciliation above depicting reference back to Notes 7 and 8 in the consolidated financial statements.

Charles R. Drew University of Medicine and Science
Schedule of Financial Responsibility Ratios (Continued)
For the Year Ended June 30, 2021

Equity Ratio Calculation	Reference	June 30, 2021
Net assets without donor restrictions	SOFP	\$ 42,791,900
Net assets with donor restrictions	SOFP	<u>119,779,400</u>
		162,571,300
Less		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	SOFP	(694,600)
Unsecured related-party receivables	n/a	-
Unsecured related-party other assets	n/a	-
Add		
Pre-implementation right-of-use lease liabilities	n/a	<u>-</u>
Modified net assets		<u>\$ 161,876,700</u>
Total assets	SOFP	\$ 249,121,200
Less		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	SOFP	(694,600)
Unsecured related-party receivables	n/a	-
Unsecured related-party other assets	n/a	<u>-</u>
Modified assets		<u>\$ 248,426,600</u>
Equity ratio		0.7
Net Income Ratio Calculation	Reference	For the Year Ended June 30, 2021
Change in net assets without donor restrictions	SOA	<u>\$ 10,310,300</u>
Total operating revenue, gains, and other support without donor restrictions	SOA	<u>\$ 75,652,200</u>
Add		
Investment return appropriated for spending (without donor restriction)	Note 12	<u>3,315,400</u>
Long-term investment returns	SOA	<u>29,268,900</u>
Gain on forgiveness of PPP loan	n/a	<u>-</u>
Total non-operating revenue and other gains (without donor restriction)		<u>29,268,900</u>
Total revenue and gains without donor restrictions		<u>\$ 108,236,500</u>
Net income ratio		0.1

Charles R. Drew University of Medicine and Science
Schedule of Financial Responsibility Ratios (Continued)
For the Year Ended June 30, 2021

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

Primary reserve strength factor score = 10 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Negative net income ratio result: Net income strength factor = 1 + (25 x net income ratio result)

Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)

Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary reserve weighted score = 40% x the primary reserve strength factor score

Equity weighted score = 40% x the equity strength factor score

Net income weighted score = 20% x the net income strength factor score

Composite score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

As of and for the year ended June 30, 2021				
RATIO DESCRIPTION	Ratio	Strength Factor	Weight	Composite Scores
Primary Reserve Ratio	0.5	3.0	40%	1.2
Equity Ratio	0.7	3.0	40%	1.2
Net Income Ratio	0.1	3.0	20%	0.6
Composite Score				<u>3.0</u>

Charles R. Drew University of Medicine and Science

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Pass-Through Entity or Other ID Number	Passed Through to Subrecipients	Expenditures Recognized
Research and Development Cluster				
U.S. Department of Defense				
HIV Prevention in Angolan Military – Phase II	12.350	N/A	\$ 1,076,199	\$ 1,280,735
Modulation Stem Cell Differentiation & Myostatin	12.420	N/A	-	204,191
E-Cigarette Vaping-Pregnancy Lactation – Lundquist	12.420	N/A	-	14,015
Subtotal U.S. Department of Defense			1,076,199	1,498,941
U.S. Department of Health and Human Services				
National Institutes of Health				
DIDARP-CDU Diversty-Promotg Drug Abuse Prgm	93.279	3R24DA017298-08	-	78,193
Passed through from University of Chicago				
HIV Interventn Models, Criminal Justice-Black MSM	93.279	1R01DA039934-01	-	25,195
Mentored postdoctoral training in translational research and biomedical information	93.307	2-RM25-MD007610-06	-	344,891
Novel Pathway Pathogenesis & Pathophysiology on NAFLD	93.307	N/A		
Passed through from Ohio University Athens				
Novel Pathway Pathogenesis & Pathophysiology on NAFLD	93.307		-	87,953
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	-	1,269,561
Accelerating Excellence in Translational Sci(AXIS)	93.307	5U54MD007598-12	150,486	3,200,115
Predicting Diabetic Retinopathy from Risk Factor Data and Digital Retinal Images	93.879	1R01LM012309-01A1	36,986	319,912
Predicting Diabetic Retinopathy from Risk Factor Data and Digital Retinal Images	93.879		-	86,408
Passed through University of California Los Angeles				
Clinical & Translational Science Institute	93.350	1ULTR001881	-	734,787
Investigational Interventions to Reduce Medication	93.779	1H0CMS331621-01-00	-	83,688
Passed through University of California Davis				
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	2U54CA143931-06	71,808	672,862
Pilot Study of the Efficacy of mifipristone in males with Type 2 Diabetes	93.859	1SCG3M113767-01A1	-	73,499
Co-Targeting Obesity in Prostate Cancer Chemo Therapy	93.859	N/A	-	317,383
Role of adipose H6DPH in Type 2 Diabetes and Obesity	93.859	9SC1DK104821-06	-	10,164
Modulation of muscle ischemia repair by stem cells and of their damage by diabetes	93.859	1-SC2-GM122716-01	-	74,984
Role of CARF-Insulin Resist-Non Alcoholic Fatty Liver	93.859	N/A	-	121,039
Therapeutic Metabolism Elect CigA Ind Cardiac Dysf	93.859	N/A	-	118,348
Training Primary Care Champions (AitaMed)subaward	93.844	N/A	-	53,306
Primary Care Training and Enhancement (HRSA)	93.844	N/A	59,838	338,154

(continued)

Charles R. Drew University of Medicine and Science
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Pass-Through Entity ID Number	Passed Through to Subrecipients	Expenditures Recognized
U.S. Department of Health and Human Services NIH/National Institute of Minority Health Understanding HIV Biomedical prevention	93.307	N/A	-	114,391
U.S. Department of Health and Human Services NIH/National Institute on Drug Abuse The Next Generation Substance Abuse Training at CDU and UCLA	93.279	N/A	-	124,069
Health Resources and Services Administration Passed through University of Southern California AIDS Regional Education and Training Center	93.149	2948SC	-	179,750
Office of Minority Health NIH/PHS/NIHID Passed through Family Health International Identifying Men Pref for Male Ctr TB Case Intervention	93.855	N/A	-	38,116
COVID-19 Prevention Network COVPN (F.Hutchinson)	93.855	N/A	-	511,065
COVID19 Site Preparedness Protocol Site (F.H)	93.855	N/A	-	16,100
COVPN 3006 Protocol (F.Hitchinson)	93.855	N/A	-	151,147
NIH/National Cancer Institute Beige Adipocytes & African American Breast Tumors	93.396	N/A	-	251,320
Metabolic Repro Strategy Trmt Diabetes and Breast Cancer	93.396	N/A	-	192,348
Subtotal U.S. Department of Health and Human Services			319,118	83,263,748
Total Research and Development Cluster			1,395,317	84,762,689
Student Financial Assistance Cluster U.S. Department of Education Federal Supplemental Educational Opportunity Grants Program	84.007	P007A05191	-	88,803
Federal Work-Study Program	84.033	N/A	-	110,370
Federal Pell Grant Program	84.063	N/A	-	693,983
Federal Direct Student Loans	84.268	N/A	-	28,601,654
Subtotal U.S. Department of Education			-	29,494,810
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
Disadvantaged Students – ELM	93.925	N/A	-	640,000
Disadvantaged Students – MPH	93.925	N/A	-	503,395
Subtotal U.S. Department of Health and Human Services			-	1,443,395
Total Student Financial Assistance Cluster			-	30,938,205
				(continued)

Charles R. Drew University of Medicine and Science
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Pass-Through Entity ID Number	Passed Through to Subrecipients	Expenditures Recognized
Other Programs				
U.S. Department of Justice				
Passed through from the Child Advocacy Center Program (Cal Governor OES)	16.575	KC17 01 1279	-	12,321
Passed through from the Child Advocacy Center Program (Cal Governor OES)	16.575	KC19 03 1279	-	226,003
Subtotal U.S. Department Justice			-	238,324
U.S. Department of Health and Human Services				
Centers for Medicare and Medicaid Services				
COVID-19 – Ryan White HIV/AIDS Prog Part C ESI COVID 19	93.918	3H76HA02163CO	-	19,664
Ryan White Title III Outpatient EIS Program-Yr 16	93.918	2H7HA021631600	164,456	330,048
Ryan White Title III Outpatient EIS Program-Yr 17	93.918	2H7HA021631600	-	26,645
Subtotal Centers for Medicare and Medicaid Services			164,456	376,357
Health Careers Opportunity Program	93.822		224,210	672,046
National Library of Medicine				
Environmental Health Curriculum-Outreach & Education Project	93.U01	HHSN27601400676P	-	1,285
Passed through from the University of Michigan				
Ctr Assessment of Public Hlth Impact-Tobacco Reg	93.077	N/A	-	25,392
Passed through from HBCU Consortium				
HBCU Consortium-Zambia (Jhpiego Corporation)	93.266	N/A	-	1,294,810
Subtotal U.S. Department of Health and Human Services			388,666	2,369,890
U.S. Department of Education				
Historically Black Colleges and Universities	84.031B	P031B141016	-	141,298
Historically Black Colleges and Universities	84.031B	N/A	-	2,165,287
Subtotal for CFDA 84.031B			-	2,306,585
COVID-19 – Higher Education Emergency Relief (HEERF)	84.425F		-	286,307
COVID-19 – Education Stabilization Fund	84.425E		-	48,550
COVID-19 – Historically Black Colleges and Universities	84.425J		-	529,320
Subtotal for CFDA 84.425			-	864,177
Subtotal U.S. Department of Education			-	3,170,762
Total Other Programs			388,666	5,778,976
Total Expenditures of Federal Awards			\$ 1,783,983	\$ 121,479,870

Charles R. Drew University of Medicine and Science
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

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, 2021. 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 consolidated operations of the University, it is not intended to and does not present the consolidated 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 consolidated 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, 2021, consists of:

Assistance Listing Number	Program Name	Loans Outstanding at June 30, 2021	Loans Awarded During Fiscal 2020	Loan Principal Repaid / Cancelled Written Off / Assigned During Fiscal 2021	Loans Outstanding at June 30, 2021
93.264	Nurse Faculty Loan Program	\$ 300,000	\$ -	\$ -	\$ 300,000

Note 4 – Endowment Award

The accompanying Schedule includes \$74,944,561 in grants, which consist of \$73,675,000 in corpus and \$1,269,561 of interest earned on the cumulative endowment corpus, which is considered program income in accordance with the grant award terms from the National Institutes of Health (Federal Assistance Listing Number 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
For the Year Ended June 30, 2021

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, 2021

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 ☒ None reported

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>Federal Assistance Listing 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	Student Financial Assistance Cluster	Unmodified
Various	Higher Education Emergency Relief Funds	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

FINDING 2021-001 – Significant Deficiency in Financial Close and Reporting

Criteria: Generally accepted accounting principles in the United States of America (U.S. GAAP) require that financial statements be prepared on the accrual basis and this necessitates a financial close process that captures all cut-off transactions as well as all adjusting entries required to prepare the financial statements.

Condition/Context: We noted several post close journal entries after year end. Additionally, during our search for unrecorded liabilities, we noted the University did not accrue for invoices for which services and goods were provided or received during fiscal year 2021.

Charles R. Drew University of Medicine and Science
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2021

Cause: There was turnover in the accounting team which caused the delays in recording the post close journal entries and missing the accrual for invoices for which services and goods were provided or received during fiscal year 2021.

Effect: The preliminary financial reporting was not accurate.

Recommendation: We recommend the University establish and enforce a more robust process/procedure and timeline surrounding the year-end close to ensure accurate and timely financial reporting. Additionally, we recommend the University more closely follow its financial close process to ensure all pending invoices are accrued.

Views of responsible officials and planned corrective actions: Management is developing a plan to enforce a more robust process around financial close which includes closely monitoring for all significant accruals that should be recorded.

Section III – Findings and Questioned Costs Relating to Federal Awards

None reported.

Charles R. Drew University of Medicine and Science
Management's Corrective Action Plan
For the Year Ended June 30, 2021



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, 2021.

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

Finding-2021-001 Significant Deficiency in Financial Close and Reporting

Improved Process of Protocol

The University will establish and enforce a more robust process and timeline around the year end close. This will include establishing a 'hard' date after which no additional, University generated adjustments will be made. Further, as part of the year end close process, the finance team will conduct its own search for unrecorded liabilities in the months of July, August and September with particular emphasis on payments to general contractors and other construction related vendors.

Sincerely,

A handwritten signature in blue ink, appearing to read "E. G. Baskerville", with a large, stylized loop at the end.

Elizabeth Baskerville, CPA, JD, MBA
Vice President of Finance & Chief Financial Officer

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, 2021

None reported.