



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, 2022 and 2021



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## **Report of Independent Auditors**

The Board of Trustees  
Charles R. Drew University of Medicine and Science

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Charles R. Drew University of Medicine and Science, a California not-for-profit corporation, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Charles R. Drew University of Medicine and Science as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Charles R. Drew University of Medicine and Science and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Charles R. Drew University of Medicine and Science's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Charles R. Drew University of Medicine and Science's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Charles R. Drew University of Medicine and Science's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of financial responsibility ratios and schedule of expenditures of federal awards 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 schedule of financial responsibility ratios and schedule of expenditures of federal awards are 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 16, 2022, on our consideration of Charles R. Drew University of Medicine and Science's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Charles R. Drew University of Medicine and Science's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charles R. Drew University of Medicine and Science's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Irvine, California  
December 16, 2022

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

<b>ASSETS</b>	June 30,	
	2022	2021
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,546,400	\$ 27,220,300
Restricted cash and cash equivalents (Note 2)	5,219,500	6,067,000
Grants and contracts receivable, net (Note 3)	24,011,200	12,469,300
Prepaid expenses and other assets	5,658,800	4,423,100
Deferred charge (Note 6)	565,700	694,600
Investments and investments held by others (Notes 4 and 5)	187,058,000	133,287,800
Loan receivable (Note 15)	9,616,800	9,626,900
Property, plant, and equipment, net (Note 6)	57,469,600	55,332,200
Total assets	\$ 315,146,000	\$ 249,121,200
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 2,319,800	\$ 2,509,800
Accrued expenses	9,741,300	9,558,400
Refundable advances (Note 9)	8,288,000	8,168,200
Notes payable (Note 7)	15,336,600	15,488,800
Bonds payable, net (Note 8)	30,010,200	30,624,700
Interest rate swap liability (Notes 5 and 8)	3,332,300	7,564,200
Deferred revenue	11,699,500	12,138,900
Obligations under financing leases (Note 10)	437,000	496,900
Total liabilities	81,164,700	86,549,900
<b>NET ASSETS</b>		
Without donor restrictions	78,590,800	42,791,900
With donor restrictions (Note 12)	155,390,500	119,779,400
Total net assets	233,981,300	162,571,300
Total liabilities and net assets	\$ 315,146,000	\$ 249,121,200

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

	Years Ended June 30,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>						
Tuition fees, net	\$ 28,054,900	\$ -	\$ 28,054,900	\$ 27,441,100	\$ -	\$ 27,441,100
Federal grants and contracts	26,562,200	-	26,562,200	18,662,800	-	18,662,800
State and local government grants and contracts	25,161,500	50,000,000	75,161,500	20,848,000	-	20,848,000
Private gifts, grants, and contracts	28,429,200	7,010,100	35,439,300	2,096,900	4,546,500	6,643,400
Auxiliary enterprises	1,183,700	-	1,183,700	730,100	-	730,100
Total revenue and support	109,391,500	57,010,100	166,401,600	69,778,900	4,546,500	74,325,400
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	10,637,600	(10,637,600)	-	5,873,300	(5,873,300)	-
Total revenue and support and net assets released from restrictions	120,029,100	46,372,500	166,401,600	75,652,200	(1,326,800)	74,325,400
<b>EXPENSES</b>						
Instruction	22,515,000	-	22,515,000	20,451,500	-	20,451,500
Public service	4,665,300	-	4,665,300	2,532,900	-	2,532,900
Research	13,810,400	-	13,810,400	12,748,200	-	12,748,200
Academic support	17,978,400	-	17,978,400	9,344,600	-	9,344,600
Student services	2,626,500	-	2,626,500	2,351,200	-	2,351,200
Institutional support	19,780,900	-	19,780,900	19,427,300	-	19,427,300
Special events	94,600	-	94,600	164,200	-	164,200
Operation and maintenance of plant	5,583,600	-	5,583,600	4,828,900	-	4,828,900
Auxiliary enterprises	659,000	-	659,000	568,800	-	568,800
Total expenses	87,713,700	-	87,713,700	72,417,600	-	72,417,600
<b>CHANGES IN NET ASSETS BEFORE OTHER NON-OPERATING CHANGES</b>	32,315,400	46,372,500	78,687,900	3,234,600	(1,326,800)	1,907,800
<b>OTHER NON-OPERATING CHANGES</b>						
Investment return, net (Note 4)	(748,400)	(10,761,400)	(11,509,800)	738,600	28,530,300	29,268,900
Unrealized gain on interest rate swap (Note 8)	4,231,900	-	4,231,900	817,100	-	817,100
Gain on loan forgiveness	-	-	-	5,520,000	-	5,520,000
Total other non-operating changes	3,483,500	(10,761,400)	(7,277,900)	7,075,700	28,530,300	35,606,000
<b>CHANGES IN NET ASSETS</b>	35,798,900	35,611,100	71,410,000	10,310,300	27,203,500	37,513,800
<b>NET ASSETS, beginning of year</b>	42,791,900	119,779,400	162,571,300	32,481,600	92,575,900	125,057,500
<b>NET ASSETS, end of year</b>	\$ 78,590,800	\$ 155,390,500	\$ 233,981,300	\$ 42,791,900	\$ 119,779,400	\$ 162,571,300

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

	Years Ended June 30,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 71,410,000	\$ 37,513,800
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	3,323,600	3,121,800
Change in allowance for grants and contracts receivable	206,200	302,600
Contributions received for long-term investment	(340,300)	-
Amortization of bond issuance costs	15,500	15,400
Deferred charge	128,900	115,500
Realized and unrealized loss (gain) on investments	12,423,500	(29,300,100)
Unrealized (gain) on interest rate swap	(4,231,900)	(817,100)
Gain on loan forgiveness	-	(5,520,000)
Changes in operating assets and liabilities, net of effects of non-cash transactions		
Grants and contracts receivable	(11,748,100)	(4,904,400)
Prepaid expenses and other assets	(1,235,700)	(2,127,900)
Accounts payable	(190,000)	(1,547,300)
Accrued expenses	182,900	78,100
Refundable advances	119,800	6,776,100
Deferred revenue	(439,400)	45,100
Net cash provided by operating activities	69,625,000	3,751,600
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(71,177,600)	(708,700)
Sales of investments	4,983,900	3,220,100
Principal collections received on / (issuance of) loan receivable	10,100	(68,000)
Purchases of property, plant, and equipment	(5,461,000)	(4,455,000)
Net cash used in investing activities	(71,644,600)	(2,011,600)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received for long-term investment	340,300	-
Principal payments on notes payable	(152,200)	(321,400)
Principal payments on bonds payable	(630,000)	(550,000)
Principal payments on financing lease obligations	(59,900)	-
Net cash used in financing activities	(501,800)	(871,400)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS</b>	(2,521,400)	868,600
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, beginning of year</b>	33,287,300	32,418,700
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, end of year</b>	\$ 30,765,900	\$ 33,287,300

See accompanying notes.



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

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	Years Ended June 30,	
	<u>2022</u>	<u>2021</u>
<b>SUMMARY OF CASH AND CASH FLOW INFORMATION</b>		
Cash and cash equivalents	\$ 25,546,400	\$ 27,220,300
Restricted cash and cash equivalents	<u>5,219,500</u>	<u>6,067,000</u>
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 30,765,900</u>	<u>\$ 33,287,300</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 1,832,718</u>	<u>\$ 1,884,800</u>
<b>SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION</b>		
New financing leases	<u>\$ -</u>	<u>\$ 437,000</u>

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

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**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 (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**

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**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 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. 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**

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**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, 2022 and 2021, 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.

**Federal 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 donor 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**

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**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 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, 2022 and 2021.

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

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

**Concentration of credit risk** – The University holds the majority of its operating cash and cash equivalents in major financial institutions. As of June 30, 2022, 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 \$187,058,000 and \$133,287,800 as of June 30, 2022 and 2021, 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. Concentration of credit risk with respect to receivables is limited due to their source, which is mainly federal, state, and local governments.

**Fair value of financial instruments** – The fair value of the University's financial instruments as of June 30, 2022 and 2021, 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.

**Reclassifications** – Certain amounts presented in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

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

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

**Recent accounting pronouncements** – In September 2020, the FASB issued Accounting Standards Update (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 adopted this ASU in the current year. The adoption of the ASU did not have a significant impact on the University’s financial statements.

**Related-party transactions** – The University had no significant related-party transactions for the years ended June 30, 2022 and 2021.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated statements of financial position date but before the 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 the consolidated financial statements are issued.

The University has evaluated subsequent events through December 16, 2022, which is the date the consolidated financial statements were issued, and concluded that there were no other events or transactions that need to be disclosed.

**Note 2 – Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of cash held at financial institutions in money market accounts whose use is limited by donors or debt agreements to specified purposes. The table below illustrates the composition of restricted cash and cash equivalents as of June 30, 2022 and 2021:

	2022	2021
Community program restricted funds (Note 15)	\$ 2,968,800	\$ 5,303,000
Grant advance	1,489,400	-
Donor-restricted funds (long-term)	411,000	399,200
Bond-redemption reserve	207,900	190,500
Reserves required by California Housing Finance Agency (CalHFA)	142,400	174,300
	\$ 5,219,500	\$ 6,067,000

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**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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Federal agencies	\$ 17,735,400	\$ 8,665,600
State and local governments	5,604,100	3,836,100
Private enterprises	<u>1,708,800</u>	<u>798,500</u>
	25,048,300	13,300,200
Allowance for doubtful accounts	<u>(1,037,100)</u>	<u>(830,900)</u>
Grants and contracts receivable, net	<u><u>\$ 24,011,200</u></u>	<u><u>\$ 12,469,300</u></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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investments		
Short-term investments held by others (UC Regents)	\$ 88,522,000	\$ 18,767,400
Beneficial interest in assets held by others (UCLA Foundation)	<u>98,536,000</u>	<u>114,520,400</u>
	<u><u>\$ 187,058,000</u></u>	<u><u>\$ 133,287,800</u></u>

The composition of investment returns for the years ended June 30, 2022 and 2021, was as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 2,243,900	\$ 1,784,300
Realized and unrealized (losses) gains, net	(12,423,500)	29,300,100
Other investment expense, net	<u>(1,330,200)</u>	<u>(1,815,500)</u>
	<u><u>\$ (11,509,800)</u></u>	<u><u>\$ 29,268,900</u></u>



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**Note 5 – Fair Value Measurements**

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

	June 30, 2022				Assets Measured at Net Asset Value (or Equivalent)
	Total	Level 1	Level 2	Level 3	
Short-term investments held by others (UC Regents)	\$ 88,522,000	\$ -	\$ -	\$ -	\$ 88,522,000
Beneficial interest in assets held by others (UCLA Foundation)	98,536,000	-	-	-	98,536,000
Interest rate swap	(3,332,300)	-	(3,332,300)	-	-
	<u>\$ 183,725,700</u>	<u>\$ -</u>	<u>\$ (3,332,300)</u>	<u>\$ -</u>	<u>\$ 187,058,000</u>

  

	June 30, 2021				Assets Measured at Net Asset Value (or Equivalent)
	Total	Level 1	Level 2	Level 3	
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>

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, 2022:

	Fair Value at June 30, 2022	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short-term investments held by others (UC Regents)	\$ 88,522,000	\$ -	Daily	2 days
Beneficial interest in assets held by others (UCLA Foundation) <sup>a), b)</sup>	98,536,000	-	Quarterly	90 days
Totals	<u>\$ 187,058,000</u>	<u>\$ -</u>		

<sup>a)</sup> 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.

<sup>b)</sup> 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, 2022 and 2021:

	2022	2021
Land improvements	\$ 2,343,400	\$ 2,343,400
Buildings and improvements	74,061,700	63,771,500
Leasehold improvements	1,063,100	1,063,100
Vehicles	565,300	508,700
Furniture, equipment, and library books	13,887,900	12,527,800
Right-of-use (ROU) equipment acquired under financing leases	881,400	841,900
Construction in progress	4,372,600	10,658,000
	97,175,400	91,714,400
Less: accumulated depreciation and amortization	(39,705,800)	(36,382,200)
Property, plant, and equipment, net	\$ 57,469,600	\$ 55,332,200

**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. The University gained title to the building in 2021.

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, 2022 and 2021, the deferred charge balance was approximately \$565,700 and \$694,600, respectively.

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**Note 7 – Notes Payable**

Notes payable consisted of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Note payable related to the Community Programs (Note 15)	\$ 13,660,000	\$ 13,660,000
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, 2022 or 2021.	878,000	941,900
Mortgage payable, secured by a second deed or trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$576,500 and \$555,400 was accrued as of June 30, 2022 and 2021, 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, 2022 or 2021. The final payment will be in year 2034.	627,000	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, 2022 or 2021.	<u>171,600</u>	<u>182,200</u>
	<u>\$ 15,336,600</u>	<u>\$ 15,488,800</u>

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**Note 7 – Notes Payable (continued)**

Future minimum annual principal payments due under notes payable outstanding as of June 30, 2022, for the fiscal years ending June 30 and thereafter are as follows:

2023	\$ 82,800
2024	88,900
2025	95,400
2026	102,500
2027	110,200
Thereafter	<u>14,229,800</u>
	14,709,600
Repayments based on residual receipts due in 2034	<u>627,000</u>
	<u>\$ 15,336,600</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 \$30,460,000 and \$31,090,000 as of June 30, 2022 and 2021, 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, 2022 and 2021, ranged from 2.73% to 4.10% and 2.69% to 2.83%, respectively. The interest rate was 3.46% and 2.74% as of June 30, 2022 and 2021, respectively.

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**Note 8 – Bonds Payable (continued)**

Scheduled annual principal maturities on the series 2014 bonds outstanding as of June 30, 2022, for the fiscal years ending June 30 and thereafter are as follows:

2023	\$ 745,000
2024	860,000
2025	965,000
2026	1,005,000
2027	1,060,000
Thereafter	<u>25,825,000</u>
	30,460,000
Unamortized debt issuances costs	<u>(449,800)</u>
	<u>\$ 30,010,200</u>

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

**Bond issuance costs** – The University incurred approximately \$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 \$15,500 and \$15,400 for the years ended June 30, 2022 and 2021, respectively, which has been included in institutional support expense in the accompanying consolidated statements of activities. The unamortized bond issuance costs amounted to approximately \$449,800 and \$465,300 as of June 30, 2022 and 2021, 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, 2022 and 2021.

**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.

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**Note 8 – Bonds Payable (continued)**

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, 2022 and 2021, respectively, a liability of \$3,332,300 and \$7,564,200 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, 2022 and 2021, was \$4,231,900 and \$817,100, respectively, which is included as the unrealized gain on interest rate swap in the accompanying consolidated statements of activities.

**Note 9 – Refundable Advances**

Refundable advances consisted of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Advances on grants and contracts		
Federal agencies	\$ 4,293,200	\$ 3,434,200
State and local governments	1,759,200	987,000
Private enterprises	<u>2,235,600</u>	<u>3,747,000</u>
	<u>\$ 8,288,000</u>	<u>\$ 8,168,200</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross value of right-of-use (ROU) equipment under lease	\$ 881,400	\$ 841,900
Less: accumulated amortization	<u>(449,400)</u>	<u>(354,300)</u>
Net book value	<u>\$ 432,000</u>	<u>\$ 487,600</u>

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**Note 10 – Commitments and Contingencies (continued)**

As of June 30, 2022, the estimated future minimum lease payments under financing leases were approximately \$127,600 for the year ended June 30, 2022. 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 \$437,000. This includes interest payments of approximately \$52,200.

**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.

In September 2021, the University received a one-time \$50 million apportionment from the State of California which will be used to support a new four-year medical degree program aimed at increasing the number of Black and Latino medical graduates in the health care workforce through the construction of a new facility. The University determined the funding to be unconditional and recognized the grant in full during the year ended June 30, 2022.

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.

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**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, 2022 and 2021. As such, the University had retirement plan expense of \$1,968,400 and \$1,793,100 for the years ended June 30, 2022 and 2021, 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 the 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.

**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, 2022 and 2021.

**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.



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## Note 12 – Endowment Funds and Net Assets (continued)

**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, 2022 and 2021, respectively. In accordance with this policy, the University's Board of Trustees authorized spending of approximately \$3,627,400 and \$3,315,400 for the years ended June 30, 2022 and 2021, respectively.

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

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

In addition to the NIH endowment, the University had other restricted endowments of approximately \$6,165,000 and \$5,824,800 as of June 30, 2022 and 2021, respectively, 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.

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**Note 12 – Endowment Funds and Net Assets (continued)**

On September 19, 2011, the University was awarded an additional \$25,000,000 in endowment funds from NIH. The funds were received by the University in \$5,000,000 annual increments during the years ended 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.

Accumulated earnings on the NIH endowments were \$17,843,000 and \$31,688,700 as of June 30, 2022 and 2021, respectively.

In addition, the University also had other term endowments with a value of \$5,438,300 and \$7,148,400 as of June 30, 2022 and 2021, respectively.

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

	As of June 30, 2022		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted	\$ 103,121,400	\$ -	\$ 103,121,400
Board-designated	-	-	-
	<u>\$ 103,121,400</u>	<u>\$ -</u>	<u>\$ 103,121,400</u>
	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>

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**Note 12 – Endowment Funds and Net Assets (continued)**

The changes in endowment net assets for the year ended June 30, 2022, is as follows:

	2022		
	Total	Without Donor Restrictions	With Donor Restrictions
June 30, 2021	\$ 117,359,500	\$ 189,600	\$ 117,169,900
Contributions	340,300	-	340,300
Appropriations	(3,817,000)	(189,600)	(3,627,400)
Investment gain, net	646,300	-	646,300
Investment depreciation, net	(11,407,700)	-	(11,407,700)
June 30, 2022	<u>\$ 103,121,400</u>	<u>\$ -</u>	<u>\$ 103,121,400</u>

The changes in endowment net assets for the year ended June 30, 2021, are 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)**

A description of amounts classified as net assets with donor restrictions as of June 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Endowments		
Portion of endowment funds required to be retained perpetually by either explicit donor stipulation or law	\$ 35,165,100	\$ 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>23,281,300</u>	<u>37,670,100</u>
Total endowments with donor restrictions	103,121,400	117,169,900
Other net assets with time and purpose restriction	<u>52,269,100</u>	<u>2,609,500</u>
Total net assets with donor restrictions	<u><u>\$ 155,390,500</u></u>	<u><u>\$ 119,779,400</u></u>

**Note 13 – Liquidity and Availability**

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

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 25,546,400	\$ 27,220,300
Investments, short-term	88,522,000	18,767,400
Grants and contracts receivable, net	<u>24,011,200</u>	<u>12,469,300</u>
	<u><u>\$ 138,079,600</u></u>	<u><u>\$ 58,457,000</u></u>

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

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**Notes to Consolidated Financial Statements**

**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, 2022 and 2021:

	Instruction	Public Service	Research	Academic Support	Student Services	Institutional Support	Special Events	Operation and Maintenance of Plant	Auxiliary Enterprises	2022
Salaries, wages, and benefits	\$ 16,377,400	\$ 2,809,400	\$ 9,211,900	\$ 9,231,200	\$ 2,095,100	\$ 10,129,200	\$ 61,300	\$ 833,600	\$ -	\$ 50,749,100
Service, supplies, and other expenses	6,137,600	1,823,900	4,558,900	8,689,200	419,600	6,986,700	33,300	753,600	-	29,402,800
Depreciation expense	-	-	-	-	-	475,900	-	2,856,300	-	3,332,200
Interest expense	-	-	-	-	-	1,910,500	-	-	-	1,910,500
Occupancy and utilities	-	32,000	39,600	58,000	111,800	278,600	-	1,140,100	659,000	2,319,100
<b>Total operating expenses</b>	<b>\$ 22,515,000</b>	<b>\$ 4,665,300</b>	<b>\$ 13,810,400</b>	<b>\$ 17,978,400</b>	<b>\$ 2,626,500</b>	<b>\$ 19,780,900</b>	<b>\$ 94,600</b>	<b>\$ 5,583,600</b>	<b>\$ 659,000</b>	<b>\$ 87,713,700</b>

  

	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
<b>Total operating expenses</b>	<b>\$ 20,451,500</b>	<b>\$ 2,532,900</b>	<b>\$ 12,748,200</b>	<b>\$ 9,344,600</b>	<b>\$ 2,351,200</b>	<b>\$ 19,427,300</b>	<b>\$ 164,200</b>	<b>\$ 4,828,900</b>	<b>\$ 568,800</b>	<b>\$ 72,417,600</b>

**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.

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.

## **Supplementary Information**

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## **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***

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, a California not-for-profit corporation, which comprise the consolidated statement of financial position as of June 30, 2022, 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 16, 2022.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Charles R. Drew University of Medicine and Science's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Charles R. Drew University of Medicine and Science's internal control. Accordingly, we do not express an opinion on the effectiveness of Charles R. Drew University of Medicine and Science's internal control.

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

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

## **Report on Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Irvine, California  
December 16, 2022



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

The Board of Trustees  
Charles R. Drew University of Medicine and Science

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Charles R. Drew University of Medicine and Science's, a California not-for-profit corporation, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Charles R. Drew University of Medicine and Science's major federal programs for the year ended June 30, 2022. Charles R. Drew University of Medicine and Science's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Charles R. Drew University of Medicine and Science complied, in all material respects, with the 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, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

#### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Charles R. Drew University of Medicine and Science's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Charles R. Drew University of Medicine and Science's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Charles R. Drew University of Medicine and Science's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on Charles R. Drew University of Medicine and Science's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Charles R. Drew University of Medicine and Science's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Irvine, California  
December 16, 2022

## Charles R. Drew University of Medicine and Science Schedule of Financial Responsibility Ratios For the Year Ended June 30, 2022

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Section 498(c)(1) of the Higher Education Act authorizes the secretary for the Department of Education (“Department”) to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility. Section 668.172 established a methodology based on three ratios—primary reserve, equity, and net income—that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution’s ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- Add the weighted scores to arrive at the composite score.

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certifications for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to the Department of 10 percent or more of its previous year’s Title IV funding, as determined by the Department.

The source for each balance below has been referenced to either the consolidated statement of financial position (“SOF”), consolidated statement of activities (“SOA”), or a specific footnote except for the following:

The Department has set limits within the primary reserve calculation so that long-term debt issued by the University after July 1, 2019, must be limited to the portion spent on property, plant, and equipment. Therefore, the Department requires that all property, plant, and equipment and long-term debt acquired or issued after that date be reported separately. Note 6 to the consolidated financial statements provides information on the University’s total property, plant, and equipment, net, but does not provide a breakout of assets acquired before and after the implementation date of July 1, 2019. Similarly, Notes 7 and 8 to the consolidated financial statements provide information on total debt of the University but do not provide a breakout of debt issued before and after July 1, 2019. The following tables provide a breakdown at June 30, 2022, based on the respective implementation date.

	<u>Reference</u>			
Property, plant, and equipment – pre-implementation	\$	32,073,400	*	
Property, plant, and equipment – post-implementation with outstanding debt for original purchase		7,164,100	**	
Property, plant, and equipment – post-implementation without outstanding debt for original purchase		13,427,500	***	
Lease right-of-use assets post-implementation	Note 10	432,000	****	
Construction in progress		4,372,600	*****	
Total property, plant, and equipment at June 30, 2022	Note 6	\$ 57,469,600		

# Charles R. Drew University of Medicine and Science

## Schedule of Financial Responsibility Ratios (Continued)

### For the Year Ended June 30, 2022

Long-term debt for long-term purposes pre-implementation			
CalHFA Mortgage payable (1)	Note 7	\$ 878,000	
CalHFA Mortgage payable (2)	Note 7	627,000	
County of Los Angeles Community Development Commission mortgage payable	Note 7	171,600	
Bonds payable	Note 8	<u>30,010,200</u>	
Total long-term debt for long-term purposes pre-implementation		<u>31,686,800</u>	†
Long-term debt for long-term purposes post-implementation			
Community programs note payable	Note 7	<u>13,660,000</u>	
Total long-term debt for long-term purposes post-implementation		<u>13,660,000</u>	††
Line of credit for construction in progress			
	n/a	<u>-</u>	†††
Total long-term debt at June 30, 2022		<u>\$ 45,346,800</u>	
Accumulated earnings subject to time or purpose restriction(s)			
	Note 12	\$ 23,281,300	
Other net assets with time and purpose restriction			
	Note 12	<u>52,269,100</u>	
Net assets with donor restrictions: other for purpose or time (less annuities)		<u>\$ 75,550,400</u>	^
<b>Primary Reserve Ratio Calculation</b>			
	<b>Reference</b>	<b>June 30, 2022</b>	
<hr/>			
Net assets without donor restrictions	SOFP	\$ 78,590,800	
Net assets with donor restrictions	SOFP	<u>155,390,500</u>	
Total net assets		233,981,300	
Less:			
Annuities with donor restrictions	n/a	-	
Term endowments with donor restrictions	Note 12	(44,675,000)	
Life income funds with donor restrictions	n/a	-	
Net assets with donor restrictions: restricted in perpetuity (less annuities)	Note 12	(35,165,100)	
Net assets with donor restrictions: other for purpose or time (not included in the calculation)	^	-	\$ (75,550,400)
Unsecured related-party receivables	Note 1	-	
Unsecured other related-party assets	Note 1	-	
Property, plant, and equipment – pre-implementation	*	(32,073,400)	
Property, plant, and equipment – post-implementation with outstanding debt for original purchase	**	(7,164,100)	
Property, plant, and equipment – post-implementation without outstanding debt for original purchase	***	(13,427,500)	
Construction in progress	****	(4,372,600)	
Lease right-of-use asset pre-implementation	n/a	-	
Lease right-of-use asset post-implementation	****	(432,000)	
Intangible assets	SOFP	(565,700)	
Add:			
Post-employment and pension liabilities	n/a	-	
Long-term debt for long-term purposes pre-implementation	†	31,686,800	
Long-term debt for long-term purposes post-implementation	††	13,660,000	
Line of credit for construction in progress	†††	-	
Pre-implementation right-of-use lease liabilities	n/a	-	
Post-implementation right-of-use lease liabilities	SOFP	<u>437,000</u>	
Total expendable net assets			141,889,700
Total expenses without donor restrictions			
	SOA	87,713,700	
Add:			
Non-operating and net investment losses	n/a	748,400	
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>\$ 88,462,100</u>

Primary reserve ratio

1.6

**Charles R. Drew University of Medicine and Science**  
**Schedule of Financial Responsibility Ratios (Continued)**  
**For the Year Ended June 30, 2022**

Equity Ratio Calculation	Reference	June 30, 2022
Net assets without donor restrictions	SOFP	\$ 78,590,800
Net assets with donor restrictions	SOFP	<u>155,390,500</u>
		233,981,300
Less:		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	SOFP	(565,700)
Unsecured related-party receivables	Note 1	-
Unsecured related-party other assets	Note 1	-
Add:		
Pre-implementation right-of-use lease liabilities	n/a	<u>-</u>
Modified net assets		\$ 233,415,600
Total assets	SOFP	315,146,000
Less:		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	SOFP	(565,700)
Unsecured related-party receivables	Note 1	-
Unsecured related-party other assets	Note 1	<u>-</u>
Modified assets		<u>\$ 314,580,300</u>
Equity ratio		0.7
Net Income Ratio Calculation	Reference	For the Year Ended June 30, 2022
Change in net assets without donor restrictions	SOA	\$ 35,798,900
Total operating revenue, gains, and other support without donor restrictions	SOA	\$ 120,029,100
Add:		
Investment return appropriated for spending (without donor restriction)	SOA	-
Non-operating revenue and other gains (without donor restriction)	SOA	4,231,900
Total revenue and gains without donor restrictions		<u>\$ 124,261,000</u>
Net income ratio		0.3

**Charles R. Drew University of Medicine and Science**  
**Schedule of Financial Responsibility Ratios (Continued)**  
**For the Year Ended June 30, 2022**

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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, 2022				
RATIO DESCRIPTION	Ratio	Strength Factor	Weight	Composite Scores
Primary Reserve Ratio	1.6	3.0	40%	1.2
Equity Ratio	0.7	3.0	40%	1.2
Net Income Ratio	0.3	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, 2022**

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Federal ID or Pass-Through Entity or Other ID Number	Passed Through to Subrecipients	Expenditures Recognized
<b>Research and Development Cluster</b>				
U.S. Department of Defense				
HIV Prevention in Angolan Military – Phase II	12.350	N/A	\$ 650,282	\$ 730,721
Effects Electronic Cigarettes Cardiomyopath Military	12.420	N/A	-	336,520
E-Cigarette Vaping-Pregnancy Lactation – Lundquist	12.420	N/A	-	15,640
Subtotal U.S. Department of Defense			<u>650,282</u>	<u>1,082,881</u>
U.S. Department of Justice:				
Child Advocacy Center Program (Cal Governor OES)	16.575	N/A	-	747
Child Advocacy Center Program (Cal Governor OES)	16.575	N/A	-	219,826
Subtotal U.S. Department of Justice			<u>-</u>	<u>220,573</u>
U.S. Department of Health and Human Services				
National Institutes of Health (NIH)				
Passed through California State University Dominguez Hills Foundation				
NIH Tailoring Healthy Relationship in MSM	93.242	1R34MH125790-01A1	-	7,263
HIV Intervention Models, Criminal Justice-Black MSM	93.279	1R01DA039934-01	-	21,794
Mentored postdoctoral training in translational research and biomedical informatics program	93.307	2-RM25-MD007610-06	-	317,473
Passed through from Ohio University Athens				
Novel Pathway Pathogenesis & Pathophysiology on NAFLD	93.307	none	-	90,594
National Center Research Recourse Research and Education				
Advancement Center/Health Endowment	93.307	1P50RR1717401	-	4,000,000
Office of Academic Computing Endowment	93.307	1S21MD000235	-	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 Endowment	93.307	5S21MD00010311	-	24,675,000
NIH Endowment Interest Earned		N/A	-	1,613,370
LSI: Sustaining Faculty Development and Community Engagement Supplement	93.307	3S21MD000103-14S1	-	3,770,136
Accelerating Excellence in Translational Sci(Axis)	93.307	5U54MD007598-12	112,891	3,930,808
Predicting Diabetic Retinopathy From Risk Factor Data and Digital Retinal Images	93.879	1R01LM012309-01A1	-	39,530
Predicting Diabetic Retinopathy From Risk Factor Data and Digital Retinal Images	93.879	1R01LM012309-AC4	-	280,421
Predicting Diabetic Retinopathy From Risk Factor Data and Digital Retinal Images	93.879	3R01LM012309-04S2	-	127,687
Passed through University of California Los Angeles				
Clinical & Translational Science Instit	93.350	1ULTR001881	-	472,768
CTS: Drug Abuse Research Day and Diabetes Day	93.350	UL1TR000124	-	6,400
Passed through University of California Los Angeles				
The COVID-19 California Alliance	93.938	1557GYB924	-	31,800
Passed through University of California Davis:				
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	2U54CA143931-06	80,863	736,121
NIH/National Heart, Lung and Blood Institute				
Passed through University of California Los Angeles				
Cultivating Interest in Research Careers -(CIRC)	93.837	1557-GZB302	-	111
The Regents of UC - Advanced Research Training Kidney Disease	93.847	1652GZA087	-	2,470
Follistatin Regulation of Energy & Lipid Metabolism Atheros	93.859	1R16GM145591-01	-	14,059
Co-Targeting Obesity in Prostrate Cancer Chemo Therapy	93.859	N/A	-	313,240
Role of CARF-Insulin Resist-Non Alcoholic Fatty Liver	93.859	N/A	-	125,957

(continued)



**Charles R. Drew University of Medicine and Science**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2022**

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Federal ID or Pass-Through Entity ID Number	Passed Through to Subrecipients	Expenditures Recognized
Therapeutic Metabolism Elect CigA Ind Cardiac Dysf	93.859		\$ -	\$ 138,384
Follistatin promotes browning and influences energy metabolism	93.866	9SC1AG049682-05	-	1,835
Passed through University of California Los Angeles				
COVID-19 Impact on Health and Well-Being	93.886	1557GZA584	-	10,807
ASCEND Training Increase Diversity Biomed Research(MSUUCDU118973)	93.310	MSUCDU118973	-	3,025
Training Primary Care Champions (AitaMed)subaward	93.844		-	61,843
Primary Care Training and Enhancement (HRSA)	93.844		99,393	397,519
NIH/National Institute of Minority Health (NIMH)				
Understanding HIV Biomedical prevention	93.307		43,940	83,537
NIH/National Institute on Drug Abuse				
The Next Generation Substance Abuse Training at CDU and UCLA	93.279		43,410	203,574
Health Resources and Services Administration:				
Passed through University of California, Los Angeles:				
AIDS Regional Education and Training Center	93.149	2948SC	-	189,649
NIH/PHS/NIAID				
Passed through Family Health International				
Identifying Men Pref for Male Ctr TB Case Intervention	93.855		-	7,263
COVID-19 Prevention Network COVFN (F.Hutchinson)	93.855		-	87,059
COVID19 Site Preparedness Protocol Site (F.H)	93.855		-	69,847
COVFN 3006 Protocol (F.Hutchinson)	93.855		-	16,061
NIH/National Cancer Institute				
Mechanism Hyperglycemia-Associated BreastCancrRisk	93.396	1SC1CA200517-01	-	13,221
Beige Adipocytes & African American Breast Tumors			-	211,304
Metabolic Repro Strategy Trmt Diabetes and Breast Cancer	93.396	1SC1GM135050	-	275,007
			<u>380,497</u>	<u>87,346,937</u>
Subtotal U.S. Department of Health and Human Services				
Total Research and Development Cluster			<u>1,030,779</u>	<u>88,650,391</u>
Student Financial Assistance Cluster				
U.S. Department of Education:				
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A05191	-	52,895
William D. Ford Federal Direct Loan Program	84.268		-	28,611,796
Federal Work-Study Program	84.033	P033A05191	-	72,645
Federal Pell Grant Program	84.063	P063P50645	-	674,788
			<u>-</u>	<u>29,412,124</u>
Subtotal U.S. Department of Education				
U.S. Department of Health and Human Services:				
Health Resources and Services Administration				
Nurse Faculty Loan Program	93.264	E01HP25828	-	305,066
Disadvantaged Students - ELM	93.925		-	614,679
Disadvantaged Students - MPH	93.925		-	494,742
			<u>-</u>	<u>1,414,487</u>
Subtotal U.S. Department of Health and Human Services				
Total Student Financial Assistance Cluster			<u>-</u>	<u>30,826,611</u>

(continued)

**Charles R. Drew University of Medicine and Science**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2022**

Federal Grantor/Pass-Through Grantor/Program and Cluster Title	Assistance Listing Number	Federal ID or Pass-Through Entity ID Number	Passed Through to Subrecipients	Expenditures Recognized
Other Programs				
U.S. Department of Education:				
Historically Black Colleges and Universities	84.031B	P031B141016	\$ -	\$ 342,253
Historically Black Colleges and Universities	84.031B		-	2,173,711
			-	2,515,964
COVID-19 Education Stabilization Fund				
Higher Education Emergency Relief Funds (institutional portion)	84.425F	P425J200076	-	2,948,340
Higher Education Emergency Relief Funds (student portion)	84.425E	P425E202430	-	671,702
Higher Education Emergency Relief Funds (HBCU)	84.425J	P425E202540	-	8,265,861
			-	11,885,903
Subtotal U.S. Department of Education			-	14,401,867
U.S. Department of Health and Human Services:				
Health Careers Opportunity Program	93.822		179,604	508,801
NIH/National Library of Medicine				
COVID-19 Health and Environmental Impact on Community Passed through from HBCU Consortium	93.U01	73.094	-	14,639
HBCU Consortium-Zambia (Jhiepgo Corporation)	93.266	unknown	-	1,963,025
Passed through University of California Los Angeles Life Course Intervention Network	93.U02	1638PZA026	-	26,562
Centers for Medicare and Medicaid Services				
Ryan White Title III Outpatient EIS Program-Yr 16	93.918	2H7HA021631600	-	6,982
Ryan White Title III Outpatient EIS Program-Yr 17	93.918	2H7HA021631600	190,000	367,298
Ryan White Title III Outpatient EIS Program-Yr 18	93.918	2H7HA021631600	-	19,661
Subtotal U.S. Department of Health and Human Services			369,604	2,906,968
Total Other Programs			369,604	17,308,835
Total Expenditures of Federal Awards			\$ 1,400,383	\$ 136,785,837

**Charles R. Drew University of Medicine and Science**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2022**

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**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, 2022. 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, 2022, consists of:

Assistance Listing Number	Program Name	Loans Outstanding at June 30, 2021	Loans Awarded During Fiscal 2022	Loan Principal Repaid / Cancelled Written Off / Assigned During Fiscal 2022	Loans Outstanding at June 30, 2022
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 (continued)**  
**For the Year Ended June 30, 2022**

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**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, 2022**

**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?  Yes  No

**Section II – Financial Statement Findings**

None reported.

**Charles R. Drew University of Medicine and Science**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2022**

**Section III – Findings and Questioned Costs Relating to Federal Awards**

**FINDING 2022-001 – Special Tests and Provisions – Enrollment Reporting: Significant Deficiency in Internal Control Over Compliance**

ALN	Federal Agency/Pass-Through Entity – Program Name	Award Number	Award Year	Questioned Costs
Various	U.S. Department of Education – Student financial assistance cluster	n/a	Year ended June 30, 2022	\$0

**Criteria** – Direct Loan, 34 CFR section 685.309(b)(2)(i): An institution is required to notify the Department of Education within 30 to 60 days (depending on the method of communication) if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who enrolled at that school but has ceased to be enrolled on at least a half-time basis.

**Condition/Context** – A sample of 34 federal aid recipient students were selected from system generated reports of 422 students who graduated, withdrew, or dropped during the 2021-2022 academic year. The enrollment information and withdrawal, address change, or graduation date per the University’s records was compared to the information reported to the National Student Loan Data System (NSLDS) in order to determine if status changes were reported within the required timeframes. We also obtained the SCHER1 report and reviewed the days elapsing between when records were distributed to the University and when responses were provided.

A total of nine student status changes were not reported to the NSLDS within the required timeframe.

One monthly distribution was not responded to within the 15 day timeframe.

**Effect** – The NSLDS database did not include accurate information until the point at which it was corrected. This information is utilized by Department of Education, the Direct Loan program, lenders, and other institutions to determine in-school status, deferment, and grace periods of student loans. Incorrect information could result in incorrect deferment, grace periods, billing, and repayment of student loans.

**Cause** – Starting in 2022, the University contracted with a third-party intermediary to transmit enrollment information to NSLDS. Prior to that, records were updated either manually or through a batch update process. Management’s existing processes did not identify and report the student status changes within the required timeframe.

**Repeat Finding** – This is not a repeat finding.

**University of San Diego**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2022**

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**FINDING 2022-001 – Special Tests and Provisions – Enrollment Reporting: Significant Deficiency in Internal Control Over Compliance (continued)**

**Recommendation** – We recommend the University revise its policies to establish clear roles and responsibilities and processes in which to report student status changes to the third-party intermediary. We also recommend that management implement controls to ensure reported changes were ultimately timely and correctly reported to the NSLDS.

**Views of Responsible Officials and Planned Corrective Actions** – The University will update monthly reporting to National Student Clearinghouse when responding to NSLDS roster files rather than every other month. Additionally, the department has revised paperwork for graduating students to ensure status are processed in a timely manner by the Registrar.

**Charles R. Drew University of Medicine and Science  
Management's Corrective Action Plan  
For the Year Ended June 30, 2022**

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**Management's Corrective Action Plan**

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

**Finding-2022-001 Special Tests and Provisions-Enrollment Reporting-Significant Deficiency in Internal Controls Over Compliance**

***Improved Process of Protocol***

*The University will implement corrective action during November 2022 related to the filing of the NSLDS report. This will include updating monthly reporting to National Student Clearinghouse when responding to NSLDS roster files rather than every other month. Additionally, the department has revised paperwork for graduating students to ensure status are processed in a timely manner by the Registrar.*

Contact Person Responsible for Corrective Action: Raquel Munoz. Registrar

Anticipated Completion Date: November 2022



**Charles R. Drew University of Medicine and Science  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2022**

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**Summary Schedule of Prior Audit Findings**

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

**Status:** Fully corrected