



Report of Independent Auditors in accordance
With Audit Requirements for Federal Awards
(Uniform Guidance) and Financial Statements
with Supplementary Information for

**Charles R. Drew University of
Medicine and Science**

June 30, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-24
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 <i>GOVERNMENT AUDITING STANDARDS</i>	25-26
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE	27-28
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	29-33
Notes to the schedule of expenditures of federal awards	34-35
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	36
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	37

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Charles R. Drew University of Medicine and Science (the "University"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles R. Drew University of Medicine and Science as of June 30, 2016 and 2015, 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.

MOSS ADAMS LLP***Other Matters****Other Information*

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Los Angeles, California
November 17, 2016

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015
(ROUNDED IN HUNDREDS)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 4,914,900	\$ 8,598,800
Restricted cash and cash equivalents (Note 2)	999,700	959,200
Grants and contracts receivable, net (Note 3)	7,652,100	6,251,900
Prepaid expenses and other assets	1,916,200	1,756,000
Deferred charge (Note 6)	1,164,200	1,231,000
Investments and investments held by others (Notes 4 and 5)	98,204,800	99,741,100
Property, plant and equipment, net (Note 6)	<u>43,727,000</u>	<u>45,144,600</u>
 Total assets	 <u>\$ 158,578,900</u>	 <u>\$ 163,682,600</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,495,000	\$ 1,369,100
Accrued expenses	3,898,500	4,608,700
Refundable advances (Note 9)	2,030,900	2,736,500
Notes payable (Note 7)	2,696,700	2,749,900
Bonds payable (Note 8)	32,695,000	32,875,000
Interest rate swap liability (Notes 5 and 8)	7,637,800	6,045,500
Deferred revenue	2,712,600	2,882,000
Obligations under capital leases (Note 10)	<u>289,200</u>	<u>30,400</u>
 Total liabilities	 <u>53,455,700</u>	 <u>53,297,100</u>
 Net assets:		
Unrestricted	20,564,300	24,674,900
Temporarily restricted (Note 12)	50,288,700	51,440,400
Permanently restricted (Note 12)	<u>34,270,200</u>	<u>34,270,200</u>
 Total net assets	 <u>105,123,200</u>	 <u>110,385,500</u>
 Total liabilities and net assets	 <u>\$ 158,578,900</u>	 <u>\$ 163,682,600</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016 AND 2015
(ROUNDED IN HUNDREDS)**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Tuition fees	\$ 14,210,700	\$ -	\$ -	\$ 14,210,700	\$ 13,938,500	\$ -	\$ -	\$ 13,938,500
Federal grants and contracts	14,528,700	5,000,000	-	19,528,700	15,150,700	5,000,000	-	20,150,700
State and local government grants and contracts	11,356,800	-	-	11,356,800	12,468,300	-	-	12,468,300
Private gifts, grants, and contracts	1,462,800	307,200	-	1,770,000	464,600	381,700	-	846,300
Auxillary enterprises	919,400	-	-	919,400	826,700	-	-	826,700
Total revenue and support	42,478,400	5,307,200	-	47,785,600	42,848,800	5,381,700	-	48,230,500
Net assets released from restrictions	4,420,600	(4,420,600)	-	-	4,291,500	(4,291,500)	-	-
Total revenue and gains and net assets released from restrictions	46,899,000	886,600	-	47,785,600	47,140,300	1,090,200	-	48,230,500
Expenses:								
Instruction	7,898,400	-	-	7,898,400	8,138,900	-	-	8,138,900
Public service	1,789,500	-	-	1,789,500	1,068,100	-	-	1,068,100
Research	14,933,000	-	-	14,933,000	14,939,200	-	-	14,939,200
Academic support	6,237,300	-	-	6,237,300	6,040,800	-	-	6,040,800
Student services	1,546,700	-	-	1,546,700	1,791,900	-	-	1,791,900
Institutional support	12,687,800	-	-	12,687,800	13,406,500	-	-	13,406,500
Special events	180,800	-	-	180,800	83,800	-	-	83,800
Operation and maintenance of plant	2,074,000	-	-	2,074,000	1,774,200	-	-	1,774,200
Auxiliary enterprises	664,000	-	-	664,000	740,900	-	-	740,900
Total expenses	48,011,500	-	-	48,011,500	47,984,300	-	-	47,984,300
Changes in net assets before other changes	(1,112,500)	886,600	-	(225,900)	(844,000)	1,090,200	-	246,200
Other changes:								
Investment return, net (Note 4)	(1,405,800)	(2,038,300)	-	(3,444,100)	172,900	4,322,800	-	4,495,700
Unrealized losses on interest rate swap (Note 8)	(1,592,300)	-	-	(1,592,300)	(126,700)	-	-	(126,700)
Total other changes	(2,998,100)	(2,038,300)	-	(5,036,400)	46,200	4,322,800	-	4,369,000
Change in net assets	(4,110,600)	(1,151,700)	-	(5,262,300)	(797,800)	5,413,000	-	4,615,200
Net assets, beginning of year	24,674,900	51,440,400	34,270,200	110,385,500	25,472,700	46,027,400	34,270,200	105,770,300
Net assets, end of year	<u>\$ 20,564,300</u>	<u>\$ 50,288,700</u>	<u>\$ 34,270,200</u>	<u>\$ 105,123,200</u>	<u>\$ 24,674,900</u>	<u>\$ 51,440,400</u>	<u>\$ 34,270,200</u>	<u>\$ 110,385,500</u>

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(ROUNDED IN HUNDREDS)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (5,262,300)	\$4,615,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,386,400	2,688,300
Writeoff of unamortized loan issuance costs	-	466,500
Loss from disposal of property, plant and equipment	-	18,300
Provision for doubtful accounts	(80,300)	83,200
Realized gain on investments, net	(143,300)	(5,236,700)
Unrealized loss on investments, net	3,589,200	741,000
Unrealized loss on interest rate swap, net	1,592,300	126,700
Changes in operating assets and liabilities, net of effects of noncash transactions:		
Grants and contracts receivable	(1,349,500)	4,432,700
Prepaid expenses and other assets	(130,600)	(621,100)
Deferred charge	66,800	59,900
Accounts payable	125,900	(1,105,200)
Accrued expenses	(710,200)	(140,800)
Refundable advances	(705,600)	981,000
Deferred revenue	(169,400)	110,300
Net cash (used in) provided by operating activities	<u>(790,600)</u>	<u>7,219,300</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(5,000,000)	(13,495,300)
Sale of investments	3,090,400	4,865,400
Purchases of property, plant and equipment	(670,400)	(682,100)
Net cash used in investing activities	<u>(2,580,000)</u>	<u>(9,312,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	-	32,875,000
Principal payments on notes payable	(53,200)	(47,600)
Principal payments on bonds payable	(180,000)	(32,585,000)
Payment of bond issuance costs	-	(440,000)
Principal payments on capital lease obligations	(39,600)	(69,200)
Net cash provided by (used in) financing activities	<u>(272,800)</u>	<u>(266,800)</u>
Net change in cash and cash equivalents	(3,643,400)	(2,359,500)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	<u>9,558,000</u>	<u>11,917,500</u>
Cash and cash equivalents and restricted cash and cash equivalents, end of year	<u>\$ 5,914,600</u>	<u>\$ 9,558,000</u>

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS (CONTINUED)
JUNE 30, 2016 AND 2015
(ROUNDED IN HUNDREDS)

	<u>2016</u>	<u>2015</u>
Summary of cash and cash flow information:		
Cash and cash equivalents	\$ 4,914,900	\$ 8,598,800
Restricted cash and cash equivalents	<u>999,700</u>	<u>959,200</u>
Total cash and cash equivalents	<u>\$ 5,914,600</u>	<u>\$ 9,558,000</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 527,623</u>	<u>\$ 593,200</u>
Supplemental non-cash activities information:		
Disposal of property, plant and equipment	\$ -	\$ 18,300
Purchases of equipment under capital lease	\$ 298,400	\$ -

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

The University recognizes 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:

- **Unrestricted net assets** – Net assets that are not subject to stipulations imposed by donor or by law. Unrestricted net assets may be designated for specific purposes by actions of the Board of Regents or may otherwise be limited by contractual agreements with outside parties.
- **Temporarily restricted net assets** – 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.
- **Permanently restricted net assets** – Net assets 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, 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 FINANCIAL STATEMENTS**

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

Grants and contracts receivable and refundable advances – Grants and contracts receivable consist of expenses incurred by the University in connection with federal government, state and local governments, and unconditional private enterprise awards for which individual applicable award agreements and/or notices stipulate payment to the University on a reimbursement basis. The payment of such receivables generally occurs within one year from which expenses are incurred. The allowance for doubtful grants and contracts receivable is an estimate calculated by the University’s management based on grant and contract specific reserves, if any, and the age of overall grants and contracts receivable. Once a grant or contract receivable is deemed uncollectible, it is written off against the allowance for doubtful grant and contract accounts.

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

Investments – Investments are stated at fair value in accordance with accounting principles generally accepted in the United States (“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. Fair value of mutual funds is determined by using quoted prices of securities with similar characteristics. See Note 4 and 5.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

During the years ended June 30, 2016 and 2015, 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 – Student tuition, fees, and auxiliary enterprises are recorded as revenue in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

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

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 an evaluation by the University’s management.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

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

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

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

The University accounts for the uncertainty in income taxes in accordance with an interpretation issued by the Financial Accounting Standards Board, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the University’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are required to be recorded as a tax benefit or expense in the current year. Additionally, this interpretation provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. The University had no uncertain tax positions that were not considered more-likely-than-not of being sustained by applicable tax authorities as of both June 30, 2016 and 2015.

Concentration of credit risk – The University holds the majority of its operating cash and cash equivalents in major financial institutions. As of June 30, 2016, 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 \$96,336,700 and \$97,804,200 as of June 30, 2016 and 2015, respectively. See Note 4.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

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

Fair value of financial instruments – The fair value of the University’s financial instruments as of June 30, 2016 and 2015 represent management’s best estimates of the amounts that would be received if sold in an orderly transaction between market participants as of the same dates. Such fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any observable inputs, management’s own judgments about the assumptions of market participants were used in pricing the asset. Those judgments are developed by management based on the best information available in the circumstances.

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

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

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

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

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

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

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

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

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

The University receives substantial funding related to its medical school and other activities from two contracts with the State of California and paid via the University of California, Los Angeles. Precise amounts and timing of these payments is uncertain, and revenue is recognized as payments are received.

On July 29, 2016, the University received approximately \$1,264,300 related to these contracts and the operation of the medical school during the year ended June 30, 2016. This payment was uncertain at June 30, 2016.

The University has evaluated subsequent events through November 17, 2016, which is the date the financial statements were available for issuance, and concluded that there were no other events or transactions that need to be disclosed.

Note 2 – Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash held at financial institutions in money market accounts whose use is limited by donors or debt agreements to specified purposes. The table below illustrates the composition of restricted cash and cash equivalents as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Donor-restricted funds (long-term)	\$ 637,700	\$ 639,700
Bond redemption reserve	180,900	163,100
Reserves required by California Housing Finance Agency ("CalHFA")	181,100	156,400
	<u>\$ 999,700</u>	<u>\$ 959,200</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Grants and Contracts Receivable

Grants and contracts receivable are expected to be collected in less than one year and consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Federal agencies	\$ 7,298,800	\$ 5,246,100
State and local governments	423,000	594,700
Private enterprises	<u>492,400</u>	<u>1,023,900</u>
	8,214,200	6,864,700
Allowance for doubtful accounts	<u>(562,100)</u>	<u>(612,800)</u>
Grants and contracts receivable, net	<u>\$ 7,652,100</u>	<u>\$ 6,251,900</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 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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Investments:		
Mutual Funds	\$ 1,868,100	\$ 1,936,900
Short term Investments held by Others (UC Regents)	19,990,500	19,244,800
Beneficial Interest in Assets held by Others (UCLA Foundation)	<u>76,346,200</u>	<u>78,559,400</u>
	<u>\$ 98,204,800</u>	<u>\$ 99,741,100</u>

The composition of investment income for the years ended June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 780,500	\$ 1,445,100
Realized and unrealized (losses) gains, net	(3,445,900)	3,798,000
Other investment expense, net	<u>(778,700)</u>	<u>(747,400)</u>
	<u>\$ (3,444,100)</u>	<u>\$ 4,495,700</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 5 – Fair Value Measurements

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Mutual Funds	\$ 1,868,100	\$ -	\$ 1,868,100	\$ -
Short term Investments (UC Regents)	19,990,500	-	19,990,500	-
Beneficial Interest in Assets held by Others (UCLA Foundation)	76,346,200	-	-	76,346,200
Interest Rate Swap	(7,637,800)	-	(7,637,800)	-
	<u>\$ 90,567,000</u>	<u>\$ -</u>	<u>\$ 14,220,800</u>	<u>\$ 76,346,200</u>

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Mutual Funds	\$ 1,936,900	\$ -	\$ 1,936,900	\$ -
Short term Investments (UC Regents)	19,244,800	-	19,244,800	-
Beneficial Interest in Assets held by Others (UCLA Foundation)	78,559,400	-	-	78,559,400
Interest Rate Swap	(6,045,500)	-	(6,045,500)	-
	<u>\$ 93,695,600</u>	<u>\$ -</u>	<u>\$ 15,136,200</u>	<u>\$ 78,559,400</u>

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

Rollforwards of the University’s investment in the UCLA Foundation’s Endowment Pool for the years ended June 30, 2016 and 2015, which were measured using significant unobservable inputs (Level 3), are shown in the table below:

	2016	2015
Beneficial Interest in Assets held by Others (UCLA Foundation)		
Balance, beginning of year	\$ 78,559,400	\$ 72,165,400
Investment income, net	124,700	483,900
Unrealized (loss) gain, net	(3,745,400)	3,785,600
Purchases	5,000,000	5,500,000
Sales	(3,592,500)	(3,375,500)
Balance, end of year	<u>\$ 76,346,200</u>	<u>\$ 78,559,400</u>

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

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 5 – Fair Value Measurements (continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent):

	Fair Value at June 30, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual Funds	\$ 1,868,100	\$ -	Semi-Annually on quarter-end dates	95 days
Short Term Investments (UC Regents)	19,990,500	-	Daily	2 days
Beneficial Interest in Assets held by Others (UCLA Foundation) ^{a)}	<u>76,346,200</u>	<u>-</u>	Quarterly	90 days
Totals	<u>\$ 98,204,800</u>	<u>\$ -</u>		

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

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

Note 6 – Property, Plant and Equipment

Property, plant and equipment consisted of the following as of June 30, 2016 and 2015:

	2016	2015
Land improvements	\$ 1,087,000	\$ 1,087,000
Buildings and improvements	57,133,000	57,088,400
Leasehold improvements	988,900	988,900
Vehicles	295,900	273,700
Furniture, equipment and library books	6,951,600	6,628,600
Equipment acquired under capital leases	937,400	639,000
Construction in progress	280,600	-
	<u>67,674,400</u>	<u>66,705,600</u>
Less: accumulated depreciation and amortization	<u>(23,947,400)</u>	<u>(21,561,000)</u>
Property, plant and equipment, net	<u>\$ 43,727,000</u>	<u>\$ 45,144,600</u>

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

If, after 35 years, the agreement for the building has not been terminated, the University will gain title to the building. As of June 30, 2016 and 2015, the amount of the contingent purchase price, in the event of agreement termination, was approximately \$406,200 and \$525,000, respectively, and declines monthly by approximately \$9,900.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Property, Plant and Equipment (continued)

In 1988, the University entered into a similar agreement, related to another building, whereby the University’s School of Allied Health Building (the “Allied Health Building”) and related land was sold to the Regents through a sale and leaseback agreement with a lease term of 35 years. The Allied Health Building was capitalized at an original carrying value of approximately \$3,807,400. The difference between the total amount capitalized and the actual cash received was approximately \$1,769,400. This amount was initially recorded as a deferred charge and deferred revenue and is being amortized over the term of the lease. As of June 30, 2016 and 2015, the deferred charge balance was approximately \$1,164,200 and \$1,231,000, respectively.

Note 7 – Notes Payable

Notes payable consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Mortgage payable to CalHFA in monthly installments of \$15,000, including interest at 7.75% per annum, with the final payment in the year 2034, secured by real property. There was no accrued interest as of June 30, 2016 or 2015.	\$ 1,761,500	\$ 1,803,700
Mortgage payable, secured by a second deed or trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$449,700 and \$428,500 was accrued as of June 30, 2016 and 2015, 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. The final payment will be in year 2034.	704,700	704,700
Mortgage payable, secured by a third deed of trust, payable to the County of Los Angeles Community Development Commission, bearing interest at 3% per annum. Monthly payment of principal and interest totals \$1,300. The final payment will be in year 2035. There was no accrued interest as of June 30, 2016 or 2015.	<u>230,500</u>	<u>241,500</u>
	<u>\$ 2,696,700</u>	<u>\$ 2,749,900</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 7 – Notes Payable (continued)

Future minimum annual principal payments due under notes payable outstanding as of June 30, 2016 for the fiscal years ending June 30 and thereafter are as follows:

2017	\$ 54,700
2018	58,600
2019	62,900
2020	67,400
2021	72,400
Thereafter	<u>1,676,000</u>
	1,992,000
Repayments based on residual receipts due in 2034	<u>704,700</u>
	<u><u>\$ 2,696,700</u></u>

Note 8 – Bonds Payable

Series 2014 bonds – On December 22, 2014, the University entered into an agreement with California Educational Facilities Authority for the issuance of \$32,875,000 of variable rate demand revenue bonds (the “series 2014 bonds”) for the retirement of series 2007 bonds. The series 2014 Bonds bear interest at a variable rate determined monthly by the Wall Street Journal, 1 month LIBOR. The interest rates for the years ended June 30, 2016 and 2015 ranged from 2.78% to 2.97% and 2.77% to 2.78%, respectively. The interest rate was 2.97% and 2.78% as of June 30, 2016 and 2015, respectively.

Principal redemption of \$180,000 was completed on November 1, 2015.

Scheduled annual principal maturities on the series 2014 bonds outstanding as of June 30, 2016 for the fiscal years ending June 30 and thereafter are as follows:

2017	\$ 205,000
2018	205,000
2019	285,000
2020	360,000
2021	550,000
Thereafter	<u>31,090,000</u>
	<u><u>\$ 32,695,000</u></u>

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

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Bonds Payable (continued)

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, 2016 and 2015.

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

Under the Swap Agreement, the University will pay Morgan Stanley, a fixed interest rate of 3.581% per annum, and Morgan Stanley, will pay the University a variable interest rate equal to 68% of 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. Changes in the fair value of the swap agreement are reported as unrealized gains (assets) or losses (liabilities) on interest rate swap related to bonds in the accompanying statements of activities.

At June 30, 2016 and 2015, respectively, a liability of \$7,637,800 and \$6,045,500 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, 2016 and June 30, 2015, were \$1,592,300 and \$126,700, respectively, which are included as the differential in fair value of swap agreement in the accompanying statements of activities.

Note 9 – Refundable Advances

Refundable advances consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Advances on grants and contracts:		
Federal agencies	\$ 1,406,600	\$ 861,000
State and local governments	241,200	652,600
Private enterprises	254,800	960,800
	<u>1,902,600</u>	<u>2,474,400</u>
 Perkins loans and others	 128,300	 262,100
	<u>\$ 2,030,900</u>	<u>\$ 2,736,500</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 10 - Commitments and Contingencies

Obligations under capital leases - The University leased certain equipment under capital lease agreements with values as follows:

	June 30,	
	2016	2015
Gross value of equipment under lease	\$ 298,300	\$ 639,000
Less: accumulated depreciation	(14,900)	(613,300)
Net book value	\$ 283,400	\$ 25,700

As of June 30, 2016, the estimated future minimum lease payments under capital leases were as follows:

Years ending June 30:	
2017	\$ 73,300
2018	73,300
2019	73,300
2020	73,300
2021	60,700
	353,900
Less: interest (4.15% - 4.85%)	(64,700)
Present value of future minimum payments	\$ 289,200

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 financial position of the University.

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

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

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 10 - Commitments and Contingencies (continued)

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

Note 11 - Retirement Plan

The University has a defined contribution, non-contributory retirement plan covering substantially all employees who have completed one year of service. The retirement contribution rates are 6% and 5%, for the years ended June 30, 2016 and 2015, respectively. As such, the University had pension plan expense of \$1,189,000 and \$925,700 for the years ended June 30, 2016 and 2015, respectively.

Note 12 - Endowment Funds

Interpretation of relevant law – In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Trustees of the University, as authorized by California law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and duly appointed officers of the University, including University’s legal counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As result of this interpretation, the University classifies as permanently 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 temporarily restricted net assets 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 temporarily restricted net assets or unrestricted net assets. There was a donor endowment deficit of \$1,606,500 as of June 30, 2016 and none as of June 30, 2015.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 12 – Endowment Funds (continued)

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

- **Preservation of capital** – To minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market.
- **Long-term growth of capital** – To seek long-term growth of principal.
- **Preservation of purchasing power** – To seek return in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

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

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

Spending policy – The University’s spending policy for endowment funds allows for the spending of 4.5% of the endowment principal invested for both the years ended June 30, 2016 and 2015. In accordance with this policy, the University’s Board of Trustees authorized spending of approximately \$3,234,600 and \$2,960,400 for the years ended June 30, 2016 and 2015, respectively.

Permanently restricted net assets – 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

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 12 – Endowment Funds (continued)

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

In addition to the NIH endowment, the University had other permanently restricted endowments of approximately \$5,270,200 as of June 30, 2016 and 2015; the earnings of which are available for various restricted and unrestricted purposes, as permitted by law.

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

On September 19, 2011, the University was awarded an additional \$25,000,000 in endowment funds from NIH. The funds will be received by the University in \$5,000,000 annual increments during the years ending June 30, 2012 through June 30, 2016. The University received \$5,000,000 during the year ended June 30, 2015, and received \$5,000,000 during the year ended June 30, 2016. The corpus of such awards is to be invested for a period of 20 years, after which such amount will be available for expenditure. During the grant period (20 years commencing on the date of each award) investment income on these funds are used to build the University’s research infrastructure and capacity, but may not be used to directly support research itself. In addition, the University also had other term endowments of approximately \$4,310,000 and \$8,899,600 as of June 30, 2016 and 2015, respectively.

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

	As of June 30, 2016			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 80,965,400	\$ (1,606,500)	\$ 48,301,700	\$ 34,270,200
Board-designated	189,600	189,600	-	-
	<u>\$ 81,155,000</u>	<u>\$ (1,416,900)</u>	<u>\$ 48,301,700</u>	<u>\$ 34,270,200</u>
	As of June 30, 2015			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 82,844,800	\$ -	\$ 48,574,600	\$ 34,270,200
Board-designated	189,600	189,600	-	-
	<u>\$ 83,034,400</u>	<u>\$ 189,600</u>	<u>\$ 48,574,600</u>	<u>\$ 34,270,200</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 12 - Endowment Funds (continued)

The changes in endowment net assets for the years ended June 30, 2016 is as follows:

	2016			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2015	\$ 83,034,400	\$ 189,600	\$ 48,574,600	\$ 34,270,200
Contributions	5,000,000	-	5,000,000	-
Appropriations	(3,234,600)	-	(3,234,600)	-
Investment income, net	(42,600)	-	(42,600)	-
Investment depreciation, net	(3,602,200)	(1,606,500)	(1,995,700)	-
June 30, 2016	\$ 81,155,000	\$ (1,416,900)	\$ 48,301,700	\$ 34,270,200

The changes in endowment net assets for the years ended June 30, 2015 is as follows:

	2015			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2014	\$ 76,672,000	\$ 189,600	\$ 42,212,200	\$ 34,270,200
Contributions	5,000,000	-	5,000,000	-
Appropriations	(2,960,400)	-	(2,960,400)	-
Investment income, net	524,800	-	524,800	-
Investment appreciation, net	3,798,000	-	3,798,000	-
June 30, 2015	\$ 83,034,400	\$ 189,600	\$ 48,574,600	\$ 34,270,200

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(CALIFORNIA NOT-FOR-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

Note 12 - Endowment Funds (continued)

A description of amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
Portion of perpetual endowment funds required to be retained permanently by either explicit donor stipulation or law	<u>\$ 34,270,200</u>	<u>\$ 34,270,200</u>
Total permanently restricted net assets	<u><u>\$ 34,270,200</u></u>	<u><u>\$ 34,270,200</u></u>
Temporarily restricted net assets:		
Endowments:		
Portion of term endowment funds subject to time restrictions	\$ 39,675,000	\$ 34,675,000
Accumulated earnings subject to time or purpose restriction(s)	<u>8,626,700</u>	<u>13,899,600</u>
	<u>48,301,700</u>	<u>48,574,600</u>
Other	<u>1,987,000</u>	<u>2,865,800</u>
Total temporarily restricted net assets	<u><u>\$ 50,288,700</u></u>	<u><u>\$ 51,440,400</u></u>

**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 financial statements of Charles R. Drew University of Medicine and Science (the "University"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

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

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

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

MOSS ADAMS_{LLP}**Compliance and Other Matters**

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
November 17, 2016

**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

We have audited Charles R. Drew University of Medicine and Science's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Charles R. Drew University of Medicine and Science complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



Los Angeles, California
November 17, 2016

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-Through Entity or Other Identifying Number	Pass-Through Expenditures to Subrecipients	Federal Expenditures
Research and Development Cluster:				
U.S. Department of Defense:				
HIV Treatment for Rwanda Defense Force	12.350		\$ 1,262,154	\$ 1,262,154
HIV Prevention in the Angolan Military	12.350		711,222	1,083,244
Subtotal U.S. Department of Defense			1,973,376	2,345,398
U.S. Department of Health and Human Services:				
National Institutes of Health				
DIDARP-CDU Diversity-Promoting Drug Abuse Prgm Passed through from University of Chicago	93.279		-	499,329
HIV Intervention Models, Criminal Justice-Black MSM A Community Collaborative Effort to Reduce the Burden of Heart Disease in a Safe*	93.279	1R01DA039934-01	-	45,029
Mentored postdoctoral training in health disparities	93.307		242,931	269,878
Project Export	93.307		-	529,926
National Center Research Recourse Research and Education Advancement Center/Health	93.307		589,141	1,056,822
Office of Academic Computing	93.307		-	4,000,000
Medical Science Institute Endowment	93.307		-	15,000,000
Medical Science Institute Temporary Endowment	93.307		-	10,000,000
Medical Science Institute Endowment	93.307		-	15,000,000
Sustaining Faculty Development & Community Engagement	93.307		-	5,000,000
NIH Endowment Interest Earned	93.307		-	24,675,000
LSI: Sustaining Faculty Development and Community Engagement Supplement	93.307		-	761,295
Passed through University of California Los Angeles: Accelerating Excellence in Translational Science (AXIS)	93.307	2U54MD007598-06	4,170	156,180
				3,033,009

(continued)

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-Through Entity or Other Identifying Number	Pass-Through Expenditures to Subrecipients	Federal Expenditures
Passed through University of California Los Angeles:				
CTSI:An innovative Program to Deliver Obesity Services at DHS Facilities	93.350	1790 B RA035	\$ -	\$ 7,973
CTSI:Sensitization of Castration-Resistant Prostate Tumors to Docetaxel Treatment of Green Tea and Quercetin	93.350	1790 G RA032	-	133,527
CTSI:Clinical & Translational Science Institute Prospect	93.350	UL1TR000124	-	8,000
Mechanism Hyperglycemia-Associated Breast Cancer Risk	93.779		-	260,904
HBCU Health Science Research Grant	93.779		-	70,244
Passed through Morehouse School of Medicine:				
Research Center Minority Institute-Translational Research Network	93.307	004CDU-08	-	133,981
Passed through University of California Los Angeles:				
Clinical & Translational Science Institute	93.389	1790 G PA017	-	648,226
CTSI:Effects of Varenicline on Alcohol & Nicotine	93.389	1KL2RR033185	-	2,060
Passed through University of California Davis:				
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	1U54CA143931-01	-	45,241
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	2U54CA143931-06	-	710,281
Passed through Cedar Sinai Medical Center:				
Barber-Pharmacist Coordination to Improve Blood Pressure Management in Black Men	93.837	735180	-	5,940
Role of H6PDH in Type 2	93.847		-	75,919
Role of adipose H6DPH in Type 2 Diabetes and Obesity	93.859		-	330,866
Myostatin regulation of skeletal muscle energy metabolism	93.859		-	121,558
Passed through University of California, Los Angeles:				
UCLA/CDU Partnership for Enhancing Diversity-Nurses	93.859	1900 G QA775	-	223,315
Follistatin promotes browning and influences energy metabolism	93.866	9SC1AG049682-05	-	308,865
CHIME: Differences in Family Support-Alcohol Recovery	93.886	1557GQB235	-	6,294

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**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-Through Entity or Other Identifying Number	Pass-Through Expenditures to Subrecipients	Federal Expenditures
Passed through University of California Los Angeles:				
Racial and Ethnic approaches to community health demonstration	93.UNKNOWN	20145339	\$ -	\$ 5,519
United for Health Community Transformation (CTG)	93.UNKNOWN	20145340	-	2,823
Passed through Family Health International:				
HIV Prevention Trials Network HPTN 073	93.855	PO15001972	-	10,215
Drew National High School Student Summer				
Research Apprentice Program (STEP-UP)	93.847		-	205,687
Targeting Perk 1/2 in Human Mammary Cancer Stem Cells	93.396		-	157,141
Health Resources and Services Administration:				
Passed through University of Southern California:				
AIDS Regional Education and Training Center	93.145	2948SC	-	255,498
Passed through University of California, Los Angeles:				
YM&SM + LBGT CoE	93.243	2000 G SH216	-	54,554
Advanced Nursing Education Grants	93.247		-	368,305
Subtotal U.S. Department of Health and Human Services			836,242	84,179,404
Total Research and Development Cluster			2,809,618	86,524,802

(continued)

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-Through Entity or Other Identifying Number	Pass-Through Expenditures to Subrecipients	Federal Expenditures
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007		\$ -	\$ 26,924
Federal Direct Student Loans	84.268		-	14,223,934
Federal Perkins Loan Program	84.038		-	137,837
Federal Work-Study Program	84.033		-	86,339
Federal Pell Grant Program	84.063		-	223,691
Subtotal U.S. Department of Education			-	14,698,725
U.S. Department of Health and Human Services				
Health Resources and Services Administration				
Nurse Faculty Loan Program	93.264		-	300,000
Subtotal U.S. Department of Health and Human Services			-	300,000
Total Student Financial Aid Cluster			-	14,998,725

(continued)

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass through Grantor Program or Cluster Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Pass-Through Entity or Other Identifying Number</u>	<u>Pass-Through Expenditures to Subrecipients</u>	<u>Federal Expenditures</u>
Other Programs:				
U.S. Department of Education:				
Historically Black Colleges and Universities	84.031B		\$ -	\$ 2,142,528
Subtotal U.S. Department of Education			<u>-</u>	<u>2,142,528</u>
U.S. Department of Health and Human Services:				
Ryan White Title III Outpatient EIS Program	93.918		39,000	325,114
NIH/National Library of Medicine				
Environmental Health Curriculum-Outreach & Education Project	93.UNKNOWN		-	
Passed through University of California Los Angeles:				6,822
Bridging-Health Info Gap: SSA II & CDU Health Science Library	93.UNKNOWN	5415PTA022	-	8,642
Subtotal U.S. Department of Health and Human Services			<u>39,000</u>	<u>340,578</u>
Total Other Programs			<u>39,000</u>	<u>2,483,106</u>
Total Expenditures of Federal Awards			<u>\$ 2,848,618</u>	<u>\$ 104,006,633</u>

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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" or "CDU") for the year ended June 30, 2016. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental and not-for-profit agencies is included in the Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the statement of financial position, activities or cash flows of the University.

Note 2 - Basis 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.

Note 3 - Federal Student Loan Program

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2016 consists of:

<u>CFDA Number</u>	<u>Program name</u>	<u>Outstanding balance at June 30, 2015</u>	<u>New Loans Issued</u>	<u>Repayments / Cancellations / Assignments of Student Loans</u>	<u>Outstanding balance at June 30, 2016</u>
84.038	Federal Perkins Loan Program	\$ 132,694	\$ -	(6,386)	\$ 126,308
93.264	Nurse Faculty Loan Program	300,000	-	-	300,000

Note 4 - Administrative Cost Allowances

Administrative cost allowances claimed for the year ended June 30, 2016 were as follows:

Federal Supplemental Educational Opportunity Grants	\$ 1,346
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CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Note 5 - Indirect Costs Rate

For the year ended June 30, 2016, the University had approved predetermined fixed indirect cost rates for grants, contracts and other agreements with the federal government as follows:

<u>Effective Period</u>	<u>Rate (%) & Location</u>	<u>Applicable Area</u>
7/1/13 - 6/30/16	43.5% On-campus	Organizational research
7/1/11 - 6/30/16	26.0% Off-campus	Organizational research
7/1/13 - 6/30/16	35.0% On-campus	Instruction
7/1/11 - 6/30/16	26.0% Off-campus	Instruction
7/1/13 - 6/30/16	35.0% On-campus	Other sponsored grants
7/1/11 - 6/30/16	25.3% Off-campus	Other sponsored grants

Total indirect costs for the year ended June 30, 2016 were \$2,322,265.

The University has elected not to use the 10 percent de minimis indirect cost rate as covered in 2 CFR 200.414.

Note 6 - Endowment Award

The accompanying Schedule includes \$74,436,925 in grants which consist of \$73,675,000 in corpus and \$761,295 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 (CFDA No. 93.307) to establish an endowment fund. Included in the total grant, is \$5,000,000 which was received during the year ended June 30, 2016. 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, 2016**

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) identified that are not considered to be material weakness? 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 that are not considered to be material weaknesses? 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>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued</i>
Various	Research and Development Cluster	<i>Unmodified</i>
Various	Student Financial Assistance Cluster	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as a low-risk auditee under? Yes No

Section II - Financial Statement Findings

None reported

Section III - Findings and Questioned Costs Relating to Federal Awards

None reported

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

The following were reported as findings in the audit of Charles R. Drew University of Medicine and Science (the "University" or "CDU") for the year ended June 30, 2015.

Finding 2015-001 – Special Tests and Provisions – Enrollment Reporting

Federal Program: Student financial Assistance ("SFA") Cluster

Federal Agency: U.S Department of Education ("ED")

Award Year: 2014-2015

Condition/Context: During the course of testing a sample of 14 students who had received Federal aid and had withdrawn or graduated from the University during the 2014-15 fiscal year there was an exception with one out of the 14 students tested (7% of the students tested). The exception was for the inaccurate reporting (student reported as withdrawn rather than as graduated), but the enrollment status was reported timely.

Recommendation: It is recommended that the University designs procedures to monitor the enrollment reporting process and designs and implements internal controls to prevent non-compliance. In addition, the University should follow up on special cases to ensure timely determination of student enrollment statuses.

Management's corrective action plan: The University will implement a correction action during November 2015 related to the filing of the NSLDS report. This will include adding a second level review by a qualified individual and also updating the policy and procedures related to NSLDS reporting as necessary.

Status of Finding: This finding has been fully corrected.