

**CHARLES R. DREW UNIVERSITY OF  
MEDICINE AND SCIENCE**  
(California Not-for-Profit Corporation)

Single Audit Report  
(with Independent Auditors' Reports Thereon)

June 30, 2012

**HASKELL  
&  
WHITE<sup>LLP</sup>**

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS ADVISORS

**Report 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 the financial statements of Charles R. Drew University of Medicine and Science (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in items FS-2012-01 and FS-2012-02 in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting. 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.



member

**Report 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* (continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 such provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items F-2012-01 through F-2012-04.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the University's board of trustees, management and its federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Haskell & White LLP*  
HASKELL & WHITE LLP

October 31, 2012  
Irvine, California

# HASKELL & WHITE<sup>LLP</sup>

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS ADVISORS

## **Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The Board of Trustees

Charles R. Drew University of Medicine and Science:

### **Compliance**

We have audited the compliance of Charles R. Drew University of Medicine and Science (the University) with the types of compliance requirements described in the United States of America Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the University's compliance with those requirements.

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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-2012-01 through F-2012-04.

### **Internal Control over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.



member

8001 IRVINE CENTER DRIVE  
SUITE 300 • IRVINE, CA 92618  
949.450.6200 FAX 949.450.6201  
www.hwcpa.com

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 (continued)**

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 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.

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 the entity's internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items F-2012-01 through F-2012-04. A significant deficiency in internal control over compliance is a deficiency or 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.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses, and accordingly, we express no opinion on the responses.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the University as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012, which contained an unqualified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133, 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the University's board of trustees, and its federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Haskell & White LLP*

HASKELL & WHITE LLP

October 31, 2012  
Irvine, California

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012**

Federal Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Contract Number	Federal Expenditures
<b>Research and development cluster:</b>			
<b><u>U.S. Department of Defense:</u></b>			
Prevention of HIV in the Jamaican Military	12.350	N00244-08-1-0084	\$ 186,029
Prevention of HIV in the Belizean Military	12.350	N00244-10-1-0014	136,960
HIV Treatment for Rwanda Defense Force	12.350	N00244-10-1-0046	1,918,803
HIV Prevention in the Angolan Military	12.350	N00244-10-1-0008	582,487
Sub-total CFDA No. 12.350			2,824,279
<b>Sub-total U.S. Department of Defense</b>			2,824,279
<b><u>U.S. Department of Health and Human Services:</u></b>			
<b><u>National Institutes of Health:</u></b>			
<b><i>Passed through California State University Dominguez Hills Foundation-</i></b>			
The HJ Mile HIV Prevention Intervention for Post Incarcerated	93.941	5-UR6-PS001098-02	8,952
<b><i>Passed through University of Southern California-</i></b>			
HJ Mile HIV Prevention Intervention-Post-Incarcerated African American Men	93.941	5-UR6-PS001098-03	15,229
HJ Mile HIV Prevention Intervention-Post-Incarcerated African American Men	93.941	5-UR6-PS001098-05	38,468
Sub-total CFDA No. 93.941			62,649
<b><i>Passed through University of California Los Angeles -</i></b>			
HIV Identification/Prevention/Treatment Service	93.242	2000GHV252	8,406
<b><i>Passed through California State University, Los Angeles -</i></b>			
Personality Disorders, Decision Making & Sexual Risk Behaviors	93.242	1SC1MH093181-01a1	105,414
Sub-total CFDA No. 93.242			113,820
Minority Institutions Drug Abuse Research Development Program	93.279	3R24DA017298	411,213
Mechanisms of Nicotine-Induction of Insulin Resist	93.279	5R21DA02234202	25,003
Sub-total CFDA No. 93.279			436,216

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**  
**Schedule of Expenditures of Federal Awards (continued)**  
**Year Ended June 30, 2012**

Federal Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Contract Number	Federal Expenditures
Project Export	93.307	5P20MD000182	1,243,140
National Center Research Recourse Research and Education Advancement Center/Health	93.307	1P50RR1717401	4,000,000
Office of Academic Computing	93.307	1S21MD00235	15,000,000
Medical Science Institute Endow ment	93.307	2S21MD00010305	10,000,000
Medical Science Institute Temporary Endow ment	93.307	5S21MD00010307	15,000,000
Medical Science Institute Endow ment	93.307	5S21MD00010310	5,000,000
Sustaining Faculty Development & Community Engagement	93.307	5S21MD00010311	5,000,000
NIH Endow ment Interest Earned			2,414,327
Sub-total CFDA No. 93.307			57,657,467
Multi-Disciplinary Investigational Intervention	93.779	1-10CMS030458/01	71,428
Sub-total CFDA No. 93.779			71,428
Master of Science & Clinical Research	93.389	5R25RR019488	4,505
Would You Like To Be A Scientist	93.389	3R25RR2329601	228,911
Research Center Minority Institute-Translational Research Netw ork	93.389	5U54RR022762	3,209,438
Accelerating Excellence in Translational Sci(Axis)	93.389	5U54RR02613803	4,911,528
<b>Passed through University of California Los Angeles-</b>			
UCLA Graduate Training Prgms in Translational & CLI - V.Chaban	93.389	1400GNB117	2,009
Clinical & Translational Science Institute	93.389	1790GPA017	420,039
CTSI:Effects of Varenicline on Alcohol & Nicotine	93.389	1KL2RR033185	59,852
Sub total CFDA No. 93.389			8,836,282
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	1U54CA143931-01	1,808,606
Cancer Center Research	93.397	1U54CA143931-01	88,985
Sub-total CFDA No. 93.397			1,897,591

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**  
**Schedule of Expenditures of Federal Awards (continued)**  
**Year Ended June 30, 2012**

Federal Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Contract Number	Federal Expenditures
Role of H6PDH in Type 2	93.847	1SC1 DK08765501	291,963
Renal Disease in Minority Pop & Devel Nations	93.847	5R13DK07970904	7,526
Subtotal CFDA No. 93.847			299,489
Testorone Stimulation Insulin Signalling Adipocytes	93.859	1SC3GM087123-01	70,000
Support of Competitive Research (SCORE)	93.859	5S06GM068510-06	130,252
Environ Determinants of Metabolic Syndrome Related	93.859	1SC3GM087224-01	129,061
Understanding Female Partner Behavior of Bisexual Men	93.859	5SC3GM083780-02	1,248
Myostatin regulation of skeletal muscle energy metabolism	93.859	1-SC1-GM089648-01A1	160,438
Sub total CFDA No. 93.859			490,999
Role of Follistatin during Androgen Regulation	93.866	1-SC1AG033407-01A1	195,496
Sub total CFDA No. 93.866			195,496
<b><i>NIH/National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK):</i></b>			
ARRA Drew National High School Student Summer Research Apprentice Program	93.701	3R25DK07838403S1	7,254
ARRA Regeneration of the Pelvic & Urethral Supports by Muscle Derived Stem Cells	93.701	3SC2DK082388	30,967
<b><i>NIH/National Heart, Lung and Blood Institute-</i></b>			
ARRA Neighborhood Structure and Cardiovascular	93.701	1R03HL088622-01A2	13,305
<b><i>NIH/National Institute of General Medicine-</i></b>			
ARRA Support of Competitive Research Institutional Development	93.701	3-S06-GM068510-05A1S1	14,654
<b><i>NIH/National Institute of Aging-</i></b>			
ARRA Role of Follistatin during Androgen Regulation of Body Composition	93.701	3-SC1-AG033407-02S1	6,330
<b><i>NIH/National Center for Research Resources:</i></b>			
ARRA Would you like to be a scientist? Discover Biomedical Sciences	93.701	3-R25-RR023296-04S1	282
ARRA Drew RCMI Translational Research Netw ork	93.701	3-U54-RR022762	814,288
ARRA Accelerating Excellence-Translational Science	93.701	3-U54-RR026138	359,665
<b><i>Passed through University of Californina, Los Angeles-</i></b>			
UCLA Grad Training Prgms-Translational & CLI -1400GNA914	93.701	1400GNA914	5,494

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**  
**Schedule of Expenditures of Federal Awards (continued)**  
**Year Ended June 30, 2012**

Federal Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Contract Number	Federal Expenditures
<b><i>NIH/National Institute of General Medical Sciences-</i></b>			
ARRA Understanding Female Partners of Bisexual Men Implications for HIV/STD Risk	93.701	3-SC3-GM083780-02S1	3,563
<b><i>NIH/National Institute of Child Health &amp; Human Development:</i></b>			
ARRA Development Effects of Neurosteroid Exposure & Etiology of Schizophrenia	93.701	1-R15-HD060025-01	852
Sub-total CFDA No. 93.701 / <u>Total ARRA expenditures</u>			<u>1,256,654</u>
<u>Health Resources and Services Administration:</u>			
<b><i>Passed through University of Southern California-</i></b>			
AIDS Regional Education and Training Center	93.145	2948SC	209,579
Sub total CFDA No. 93.145			<u>209,579</u>
<u>Office of Minority Health:</u>			
<b><i>Passed through AIDS Healthcare Foundation:</i></b>			
Charles Drew University of Medicine & Science, GME Proj-Improve Hlth	93.137	5 MPCMP101035-02-00	158,182
Charles Drew Univ Med & Sci, GME Project for Improvement of Health & Health Disparities in Underserved Urban Areas-K. Norris	93.137	6MPCMP101035-01-01	1,120,180
Sub-total CFDA No. 93.137			<u>1,278,362</u>
<u>Centers for Medicare and Medicaid Services-</u>			
Mammography Screening Hispanic Women	93.779	1HOCMS300041	311,957
Sub-total CFDA No. 93.779			<u>311,957</u>
<u>NIH/National Cancer Institute</u>			
Targeting Perk 1/2 in Human Mammary Cancer Stem Cells	93.396	1SC1CA165865-01A1	251,450
Subtotal CFDA No. 93.396			<u>251,450</u>
<b>Sub-total Dept of Health and Human Services</b>			<u>73,369,439</u>
<b>Total research and development cluster</b>			<u>76,193,718</u>

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**  
**Schedule of Expenditures of Federal Awards (continued)**  
**Year Ended June 30, 2012**

Federal Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Contract Number	Federal Expenditures
<b>Student Financial Aid Cluster:</b>			
<b><u>U.S. Department of Education:</u></b>			
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A05191	26,600
Subtotal CFDA No. 84.007			26,600
William D. Ford Federal Direct Loan Program	84.268	P268K123329	17,702,029
Subtotal CFDA No. 84.268			17,702,029
Federal Perkins Loan Fund	84.038	P037Y075191	4,893
Subtotal CFDA No. 84.038			4,893
Federal Work-Study Program	84.033	P033A05191	67,554
Subtotal CFDA No. 84.033			67,554
Federal Pell Grant Program	84.063	P063P50645	190,706
Subtotal CFDA No. 84.063			190,706
<b>Sub-total U.S. Department of Education</b>			17,991,782
<b>Total student financial aid cluster</b>			17,991,782
<b>Other programs:</b>			
<b><u>U.S. Department of Education:</u></b>			
Historically Black Colleges and Universities	84.031B	P031B070062	2,214,293
Sub total CFDA No. 84.031B			2,214,293

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**  
**Schedule of Expenditures of Federal Awards (continued)**  
**Year Ended June 30, 2012**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Catalog of Federal Domestic Assistance (CFDA) Number</b>	<b>Contract Number</b>	<b>Federal Expenditures</b>
CDU College Bound Prep Plus-Institutional Project	84.120A	P120A090069	120,742
Increasing STEM Success - At-Risk & Foster Youth	84.120A	P120A110091	133,437
Sub total CFDA No. 84.120A			254,179
<b>Sub-total U.S. Department of Education</b>			2,468,472
<b>U.S. Department of Health and Human Services:</b>			
Nitric Oxide/cGMP Modulation of Corporal Fibrosis	93.853	1SC1NS064611-02	240,461
Estrogen Receptors and Nociceptive Signalling-Primary	93.853	1SC1NS063939-01	183,293
Sub total CFDA No. 93.853			423,754
<b>Passed through University of California Los Angeles:</b>			
Drew /UCLA Connect Community Partnered Resources	93.879	4001577	18,150
<b>Passed through Center for Disease Control-</b>			
Title IV of the Intergovernmental Personnel Act of 1970	93.879	07IPA719503	63,656
Title IV of the Intergovernmental Personnel Act of 1970	93.879	200-2011-M-41065	72,496
Sub total CFDA No. 93.879			154,302
<b>NIH/National Library of Medicine-</b>			
Environmental Health Curriculum-Outreach & Education Project	None Provided	HHSN276201000687P	953
Environmental Health Curriculum-Outreach & Education Project	None Provided	HHSN276201000687P	3,016
			3,969
<b>Passed through University of California San Diego-</b>			
Scanner: Scalable National Network for Effect Research	93.715	1R01HS019913-01	46,202
Sub total CFDA No. 93.715			46,202
<b>Passed through Corporation for National and Community Service-</b>			
Positive Parolee Implementation	94.019	None	127,675
Sub total CFDA No. 94.019			127,675
<b>Sub-total U.S. Department of Health and Human Services</b>			755,902
<b>Total other programs</b>			3,224,374
<b>Total expenditures of Federal awards</b>			\$ 97,409,874

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2012**

**(1) General**

The accompanying schedule of expenditures of federal awards 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, 2012. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included in the schedule.

**(2) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) is prepared using the accrual basis of accounting, as described in Note 1 to the financial statements of the University.

**(3) Federal Perkins Loan Program**

The University did not provide funding under the Federal Perkins Loan Program during the year ended June 30, 2012.

**(4) Administrative Cost Allowances**

Administrative cost allowances claimed for the year ended June 30, 2012 were as follows:

Federal Work-study Program	\$	3,418
Federal Supplemental Educational Opportunity Program		1,330
	<u>\$</u>	<u>4,748</u>

**(5) Indirect Costs from Federal Grants**

For the year ended June 30, 2012, 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 (%) &amp; Location</u>	<u>Applicable Area</u>
7/1/08 - 6/30/12	41.0%, On-campus	Organizational research
7/1/06 - 6/30/12	26.0%, Off-campus	Organizational research
7/1/06 - 6/30/12	32.6%, On-campus	Instruction
7/1/06 - 6/30/12	26.0%, Off-campus	Instruction
7/1/06 - 6/30/12	34.6%, On-campus	Other sponsored grants
7/1/06 - 6/30/12	25.3%, Off-campus	Other sponsored grants

Total indirect costs for the year ended June 30, 2012 were \$3,184,429.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Notes to Schedule of Expenditures of Federal Awards (continued)**  
**Year ended June 30, 2012**

**(6) Subrecipients**

Federal awards paid to subrecipients during the year ended June 30, 2012 were as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Modulation of Stem Cell Differ & Myostatin-Approach to Counteract Fibrosis-Muscle Dys&Regen Injury	93.137	\$ 250,000
Drew/UCLA Cancer Ctr Partnership to Eliminate Cancer-Dev Core Prgm 3 Outreach-	93.397	13,940
Prevention of HIV in the Jamaican Military	12.350	91,182
Prevention of HIV in the Belizean Military	12.350	64,255
Would You like to be a Scientist? Discover Biomedical Sciences! Phase I/II	93.389	5,732
HIV Treatment & Care in the Rwandan Defense Force-0046	12.350	1,622,970
Prevention of HIV in the Angolan Military	12.350	380,200
Drew RCM Translational Research Network (RTRN)	93.389	2,588,038
CDU:RCMI-Translational Rsch Ntwk-Sm Grants-HU-GH	93.389	11,949
Accelerating Excellence in Translational Sci (AXIS) - Community Engagement	93.389	60,000
Accelerating Excellence in Translational Sci (AXIS) - UC Irvine	93.389	198,900
DREW/UCLA:EXPORT DREW/UCLA:EXPORT-ADMIN	93.307	615,065
DREW/UCLA:EXPORT DREW/UCLA:EXPORT (HIV RSRCH)	93.307	20,000
Drew RCM Translational Research Network-Small Grants - FAMU (ARRA)	93.701	16,522
Drew RCM Translatnl Resrch Ntwrk-Sm Grnt - HU (ARRA)	93.701	33,071
Drew RCM Translational Resrch Ntwrk-T1&T2-MMC-AA (ARRA)	93.701	24,999
Drew RCM Translational Resrch Ntwrk-T1&T2-PSM-JD (ARRA)	93.701	3,203
Drew RCM Translational Resrch Ntwrk-Rrsch Fdn_CUNY-RD (ARRA)	93.701	8,406
Drew RCM Translational Resrch Ntwrk-Sm Grnt UTSA-WH (ARRA)	93.701	24,977
Drew RCM Translational Resrch Ntwrk-Sm Grnt-UCC-MJE (ARRA)	93.701	33,501
Drew RCM Translational Resrch Ntwrk-T1&T2 - UH-SU (ARRA)	93.701	132,607
Drew RCM Translational Rsrch Ntwrk-Sm Grnt - UPMSC (ARRA)	93.701	24,499
Drew RCM Translational Resrch Ntwrk-Sm Grnt - UTEP (ARRA)	93.701	18,454
Drew RCM Translational Research Network - HU-TS (ARRA)	93.701	25,000
Drew RCM Translational Research Network - MMC-VMR (ARRA)	93.701	25,000
Drew RCM Translational Research Network - MSM-DSB (ARRA)	93.701	25,000
Drew RCM Translational Research Network - PSM-EC (ARRA)	93.701	17,366
Drew RCM Translational Rsrch Net-T1&T2 Supplement - Jackson (ARRA)	93.701	254,325
Accelerating Excellence in Translational Sci-Exergaming (ARRA)	93.701	12,840
		<u>\$ 6,602,001</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Notes to Schedule of Expenditures of Federal Awards (continued)**  
**Year ended June 30, 2012**

**(7) Endowment Award**

The accompanying schedule of expenditures of federal awards includes \$56,414,327 in grants which consist of \$54,000,000 in corpus and \$2,414,327 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, 2012. Of the \$54,000,000 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 \$25,000,000 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  
(California Not-for-Profit Corporation)  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012**

**(1) Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued on the financial statements: **Unqualified opinion**

Internal control over financial reporting:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?   X   Yes        None reported

Noncompliance material to the financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?   X   Yes        None reported

Identification of major programs and type of auditors' report issued on compliance:

<b>Program Name</b>	<b>CFDA Number</b>	<b>Opinion</b>
Research and Development Cluster	Various	Unqualified
Student Financial Aid Cluster		Unqualified
William D. Ford Federal Direct Loan Program	84.268	

Other items:

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?   X   Yes        No

Dollar threshold used to distinguish between type A and type B programs: **\$2,922,296**

Auditee qualified as a low-risk auditee under section 0.530 of OMB Circular A-133?        Yes   X   No

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards**

**Finding FS-2012-01 – Cash Receipts**

***Criteria***

In accordance with Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), a deficiency in internal control over financial reporting 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.

***Condition, Cause and Effect***

During our review of internal control over financial reporting, specifically cash receipts, we evaluated key controls established to ensure that cash receipts are reviewed and properly supported. We noted that a cash receipts log is produced by an office assistant when cash and checks are received in the mail; however, there is no subsequent review of this log, whereby it is compared with deposits and/or revenue recorded in the general ledger to ensure completeness. We also noted improper segregation of duties surrounding the functions of posting credit card transactions, access to cash payments and checks, and preparing deposits. As of July 1, 2012, management implemented new controls that should mitigate some improper segregation of duties surrounding access to cash payments and checks, and preparing deposits.

***Recommendation***

We recommend that the cash receipts log be reconciled to deposits and/or revenue recorded in the general ledger on a monthly basis and that such reconciliations be reviewed by the appropriate level of supervisory or management personnel. We also recommend that the University implement controls to ensure proper segregation of duties are in place surrounding the function of posting credit card transactions to reduce the risk of misappropriation of University's assets.

***Views of Responsible Officials***

The University implemented new controls to eliminate this deficiency. There is a dual key lock box in the Finance area that is used for depositing of all checks. The box is opened by two individuals in the Finance area and they jointly create the check receiving log. The Assistant Controller compares the deposit slip to the receiving log to confirm completeness of the deposits and that no checks are missing.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards (continued)**

**Finding FS-2012-02 – Accounting System Access Rights**

***Criteria***

In accordance with Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), a deficiency in internal control over financial reporting 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.

***Condition, Cause and Effect***

During our review of internal controls over cash disbursements, we evaluated user rights of Finance Department personnel to access certain functions related to the accounts payable module in the University's accounting system, Great Plains. Great Plains is managed by the Information Technology (IT) Department, which assigns user access rights based on Application Access Request Forms approved by the Controller. During our review, we obtained screenshots from the IT department showing a listing of all Finance Department personnel who have access rights to the following accounts payable functions:

- Enter purchase orders
- Enter accounts payable invoices and match such invoices against purchase orders
- Post invoices
- Create batches of invoices to be paid
- Post batches and/or series of invoices to be paid
- Set up new vendors and maintain/edit previously set up vendors

We reviewed these screenshots in order to evaluate the duties and assignments of the personnel in the Finance Department and to determine whether the access rights granted to personnel are commensurate with existing roles and responsibilities. Access rights to perform key functions are intended to be designed to separate and differentiate between data entry and review and/or approval rights.

During the current year, we noted that management made some changes to restrict access rights for certain employees; however, our evaluations found improperly restricted access rights for at least one of the functions listed above. We noted improperly restricted access rights for the vendor maintenance and series posting functions. Notably, personnel with access rights to enter invoices also had access rights to post series and set up and maintain/edit new vendors and vice-versa. Additionally, we noted that the Controller and the Assistant Controller had the ability to both enter and post manual journal entries. Finally, we noted that there were two employees who were terminated prior to year end; however, they still had access rights to Great Plains as of year-end.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards (continued)**

**Finding FS-2012-02 – Accounting System Access Rights (continued)**

***Recommendation***

We recommend that the University take steps to revisit and evaluate the existing access rights for all personnel with any access rights to Great Plains to ensure granted access rights are consistent with job position roles and responsibilities, and we recommend the University revoke terminated employees access rights upon termination. We also recommend that this evaluation process be performed at least annually in order to ensure inconsistencies are corrected and established checks and balances are maintained. Finally, we recommend that the Assistant Controller be restricted from posting manual journal entries, and that the Controller be restricted from entering manual journal entries.

***Views of Responsible Officials***

On October 19, 2012, the Controller and the Director IT met and updated the GP security schema to eliminate the remaining deficiencies in the accounts payable area. The series post was removed from all users, and the vendor setup was removed from the Accounts Payable staff. Additionally, we reviewed the list of active accounts and removed all terminated employees from the system. The user listing and GP security roles will be reviewed on a quarterly basis.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Research and Development Cluster:**

**Finding F-2012-01 – Allowable Costs – Payroll Expenditures**

***Federal Program Information***

*Federal Catalog Number:* 93.137; 93.307; 93.389; 93.701

*Federal Program Name:* Charles Drew Univ Med & Sci, GME Project for Improvement of Health & Health Disparities in Underserved Urban Areas-K. Norris (GME Project); Minority Health and Health Disparity Research, National Center on Minority Health and Health Disparities Research Endowment Program; Accelerating Excellence in Translational Science (AXIS); Research Center Minority Institute-Translational Research Network; UCLA Cancer Center Partnership to Eliminate Cancer

*Federal Agency:* U.S. Department of Health and Human Services - National Institute of Health; U.S. Department of Health and Human Services - Office of Minority Health

*Pass-Through Entity:* None

*Federal Award Number and Award Year:* 6MPCMP101035-01-01, February 1, 2011 to January 31, 2012; 5S21MD000103-09, September 28, 2009 to August 31, 2010, 5S21MD000103-10, September 1, 2010 to August 31, 2011; 5U54RR026138-03, July 1, 2011 to June 30, 2012; 5U54RR022762-05, July 1, 2011 to June 30, 2012; 5U54CA143931-03, September 1, 2011 to August 31, 2012

***Criteria***

TITLE 2 – GRANTS AND AGREEMENTS, CHAPTER II – OFFICE OF MANAGEMENT AND BUDGET CIRCULARS AND GUIDANCE, PART 220 – COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS (OMB CIRCULAR A-21), Section Appendix A to Part 220 – Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions, 10. Compensation for personal services. b. Payroll distribution.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Research and Development Cluster (continued):**

**Finding F-2012-01 – Allowable Costs – Payroll Expenditures (continued)**

***Criteria (continued)***

(1) General Principles.

- (a) The distribution of salaries and wages, whether treated as direct or facilities and administrative (F&A) costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Institutions may include in a residual category all activities that are not directly charged to sponsored agreements, and that need not be distributed to more than one activity for purposes of identifying F&A costs and the functions to which they are allocable. The components of the residual category are not required to be separately documented.
- (b) The apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will: (1) be in accordance with Section A.2 and C of this Appendix; (2) produce an equitable distribution of charges for employee's activities; and (3) distinguish the employees' direct activities from their F&A activities.

(2) Criteria for Acceptable Methods.

- (a) The payroll distribution system will be incorporated into the official records of the institution; reasonably reflect the activity for which the employee is compensated by the institution; and encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- (b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

***Condition, Cause and Effect***

In our procedures performed over program allowable costs, we reviewed the University's processes and documentation used to support its payroll expenditures charged to its programs. The University's program directors prepare Personnel Action Forms (PAF) to determine the allocation of employee's semimonthly payroll expenditures based on their budgeted program assignments, which is reviewed and approved by appropriate personnel within the University. Personnel Action Forms are updated for any proposed changes in the employee's rate of pay or budgeted program assignment. We selected a sample of 34 employees utilizing 105 Personnel Action Forms to determine whether the amounts that were charged were supported by such forms. From our procedures we noted the following inconsistencies in practice and other procedural items as follows:

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Research and Development Cluster (continued):**

**Finding F-2012-01 – Allowable Costs – Payroll Expenditures (continued)**

***Condition, Cause and Effect (continued)***

1. Payroll charges for five (5) employees were incorrectly allocated to various programs which were not consistent with the approved Personnel Action Form.
2. New PAFs were not entered into the payroll system in a timely manner, which caused more journal entries to correct payments retroactively.
3. Inconsistencies in the use of PAF and Cost Reclassification form to change payments retroactively.

The above noted deficiencies appear to be due to:

- PAFs are manually entered into Great Plains system without review to ensure the data was entered correctly,
- The use of Personnel Action Forms to change payments retroactively,
- Delays in reconciling payroll charges to program expenditures and PAFs, and
- PAFs are not consistently maintained between the HR department and Payroll department.

The noted error in item #1 above was corrected by the University prior to year end, after it was brought to management's attention by the external auditor.

***Questioned Costs***

Not Determined.

***Recommendation***

We recommend that the University improve and strengthen its existing policies and procedures surrounding Personnel Action Forms in order to ensure that forms are used for prospective payroll only; we recommend that the University consistently uses the cost reclassification form to change retroactive payment. We also recommend that the University update pay rates in the payroll system in a timely manner to ensure that employees are paid accurately.

***Views of Responsible Officials***

The University will implement an Electronic PAF System as well as a system manual that will improve the processing and timeliness of the Personnel Action Form being entered into the Great Plains System. The Electronic PAF System will allow for the generating and processing of a Personnel Action Form on a prospective basis only. The University will develop and implement a Retroactive Payroll Form to resolve retroactive payments.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Research and Development Cluster (continued):**

**Finding F-2012-02 – Equipment and Real Property Management**

***Federal Program Information***

*Federal Catalog Number:* 93.137; 93.389; 93.701

*Federal Program Name:* Charles Drew Univ Med & Sci, GME Project for Improvement of Health & Health Disparities in Underserved Urban Areas-K. Norris (GME Project); Accelerating Excellence in Translational Science (AXIS); Research Center Minority Institute-Translational Research Network; UCLA Cancer Center Partnership to Eliminate Cancer

*Federal Agency:* U.S. Department of Health and Human Services - National Institute of Health; U.S. Department of Health and Human Services - Office of Minority Health

*Pass-Through Entity:* None

*Federal Award Number and Award Year:* 6MPCMP101035-01-01, February 1, 2011 to January 31, 2012; 5U54RR026138-03, July 1, 2011 to June 30, 2012; 5U54RR022762-05, July 1, 2011 to June 30, 2012; 5U54CA143931-03, September 1, 2011 to August 31, 2012

***Criteria***

TITLE 2 – GRANTS AND AGREEMENTS, CHAPTER II – OFFICE OF MANAGEMENT AND BUDGET CIRCULARS AND GUIDANCE, PART 215 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND AGREEMENTS WITH, Subpart C – Post Award Requirements, Section 215.34 Equipment (f).

- (1) Equipment records shall be maintained accurately and shall include the following information. (i) A description of the equipment. (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number. (iii) Source of the equipment, including the award number. (iv) Whether title vests in the recipient or the Federal Government. (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost. (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government). (vii) Location and condition of the equipment and the date the information was reported. (viii) Unit acquisition cost. (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.
- (2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Research and Development Cluster (continued):**

**Finding F-2012-02 – Equipment and Real Property Management (continued)**

***Criteria (continued)***

- (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.
- (4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.
- (5) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.
- (6) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

Corollary to these provisions, Section 34 (f)(3) of OMB Cir. A-110 also provides that: "A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference."

***Condition, Cause and Effect***

As part of our procedures to determine whether proper records are maintained for equipment and real property and whether adequate controls are in place to ensure that records are properly maintained to provide accurate information pertaining to safeguarding and preventing loss of equipment or property, we requested inventory records and reviewed the existing policies and procedures of CDU related to Equipment and Property Management. Per inquiry with management, the physical inventory count was performed during the fiscal year ended June 30, 2011; however management did not provide us with a copy of the physical inventory count report. In addition, management did not reconcile the results of the physical inventory count to their Fixed Asset Register (FAR) which is maintained by Finance. Therefore any differences between quantities determined by the physical count and those shown in the FAR were not investigated.

***Questioned Costs***

Not Determined.

***Recommendation***

We recommend that the University endeavor to adopt adequate policies, controls and procedures to ensure a physical inventory of equipment is done at least once every two years and properly reconciled to the accounting records in order to be in compliance with existing regulations and adequately safeguard equipment and property against possible loss or damage.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Research and Development Cluster (continued):**

**Finding F-2012-02 – Equipment and Real Property Management (continued)**

***Views of Responsible Officials and Planned Corrective Actions***

The University performed a physical inventory in Fiscal Year 2011, and we are planning on performing a physical inventory in Fiscal Year 2013 with a scheduled completion of April 2013. The physical inventory project is being jointly managed by the Assistant Controller and the Facilities Manager. The Internal auditors will monitor this project to make sure that the physical inventory count and reconciliation is complete.

**Student Financial Assistance Cluster:**

**Finding F-2012-03 – Special Tests and Provisions – Return of Title IV**

***Federal Program Information:***

*Federal Catalog Number:* 84.268  
*Federal Program Name:* Willaim D. Ford Federal Direct Loan Program  
*Federal Agency:* U.S. Department of Education  
*Pass-Through Entity:* None  
*Federal Award Number  
and Award Year:* PK268113329; July 1, 2011 to June 30, 2012

***Criteria***

TITLE 34 – EDUCATION, CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 668 – STUDENT ASSISTANCE GENERAL PROVISIONS, Subpart B – Standards for Financial Responsibility, Section 668.173 Fund Reserve Standards.

- a) Timely return of title IV, HEA program funds. In accordance with procedures established by the Secretary or Program lender, an institution returns unearned title IV, HEA funds timely if—
- (1) The institution deposits or transfers the funds into the bank account it maintains under §668.163 no later than 30 days after the date it determines that the student withdrew;
  - (2) The institution initiates an electronic funds transfer (EFT) no later than 30 days after the date it determines that the student withdrew;
  - (3) The institution initiates an electronic transaction, no later than 30 days after the date it determines that the student withdrew, that informs a lender to adjust the borrower's loan account for the amount returned; or

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Student Financial Assistance Cluster (continued):**

**Finding F-2012-03 – Special Tests and Provisions – Return of Title IV (continued)**

***Criteria (continued)***

- (4) The institution issues a check no later than 30 days after the date it determines that the student withdrew. However, the Secretary considers that the institution did not satisfy this requirement if—
  - (i) The institution's records show that the check was issued more than 30 days after the date the institution determined that the student withdrew; or
  - (ii) The date on the cancelled check shows that the bank used by the Secretary or Program lender endorsed that check more than 45 days after the date the institution determined that the student withdrew.

***Condition, Cause and Effect***

In our procedures performed to determine if refunds of Title IV funds were made to funders in a timely manner as required by the Department of Education, we reviewed the policies and practices of the University to determine whether adequate procedures were in place to ensure that funds are returned to funders from students who withdrew, dropped out, or never began attendance. As part of our review, we requested the Return of Title IV Calculation Worksheets (R2T4) of eight (8) students who were determined to have withdrawn, dropped out, or never began attendance during the school year ending the summer of 2012. The R2T4 form, which is available online, automatically computes, among other things, the amount earned and the amount to be refunded by the student once the basic data in steps 1, 2 and 5 are provided by the University. This form also contains various information such as: a) name and social security number; b) date of school's determination that student withdrew; c) date form was completed; and d) steps 1 through 10 showing the computation or amount to be returned or refunded.

In our assessment of the R2T4's, we undertook the following: a) verified the date of the University's determination as to when the student withdrew, dropped out, and non-attendance; b) recomputed the amount of funds to be returned to funders, and; c) calculated the number of days it took the University to return the money to the funders. Based on these procedures, the following deficiency was observed:

1. The University failed to monitor and determine the dropping out of two (2) students in a timely manner. Based on the information derived from the R2T4, the dropping of these students were determined after 30 days from the last class attended by one student (which was on October 12, 2011) and 30 days from the date the withdrawal was completed by the other student (which was also on October 12, 2011).
2. The University did not refund any amount to the Department of Education as the University initially calculated the earned amount for each of the two (2) students at approximately 60% of their aid. However, the refundable amount of those students should have been computed to have earned only 42% of the aid and return a total of \$8,495 to the Department of Education. The University prepared a revised R2T4 forms on October 5, 2012 and submitted the refundable amounts to the Department of Education.

Inquiries revealed that these deficiencies were mainly due to inadequate monitoring of student attendance during the school terms and lack of communication between departments about a formal date of withdrawal.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Student Financial Assistance Cluster (continued):**

**Finding F-2012-03 – Special Tests and Provisions – Return of Title IV (continued)**

***Questioned Costs***

Not Applicable.

***Recommendation***

We recommend that the University take steps to adequately monitor student attendance in order to determine the withdrawal, dropping out, and non-attendance of students in a timely manner. This would not only allow the timely preparation of the R2T4's, but would also ensure compliance to existing regulations related to return of Title IV funds. We also recommend that subsequent to any counseling given to students who were intending to drop but have suggested a desire to continue, that the student attendance be reviewed two weeks later to determine if the student had actually resumed classes. We also recommended a stronger and more formalized method of communication be established between Department of Student Financial Aid and Department of Administration so that a formal date of withdrawal will be shared between the two departments.

***Views of Responsible Officials and Planned Corrective Actions***

The University is working to enhance the date when a Student has withdrawn either by student-initiated, or university-initiated. The University is also formalizing the withdrawal date that will be used in calculating the return of Title IV funds.

1. The University will improve its ability to determine if a student has withdrawn from classes without notification.

Prior to the start of each academic year, the University Registrar and the Director of Financial Aid will meet with each academic Dean to review the University's existing policies on attendance tracking and reporting. Additionally, the Registrar will provide to the Deans full electronic class rosters on six key dates during each term: First day of class; end of second week; end of late registration; census date; and the 60% point of the term. The Faculty is required to take attendance and the attendance logs will be reviewed to determine if a student should be withdrawn from the University.

2. The University has formalized the official date of withdraw to be used for R2T4 calculations. University-initiated withdraws will use the student's last date of attendance (LDA) for the R2T4 calculation. Administrative Release documentation forms have been modified to require the LDA, along with approving signatures from the Program Director, Registrar's Office, and the office of Financial Aid.

Student-initiated withdraws will continue to use the date the student signed their official request to withdraw when calculating return of funds.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year ended June 30, 2012**

**(3) Findings and Questioned Costs Relating to Federal Awards (continued)**

**Student Financial Assistance Cluster (continued):**

**Finding F-2012-04 – Special Tests and Provisions –Borrower Data Transmission and Reconciliation**

***Federal Program Information***

*Federal Catalog Number:* 84.268  
*Federal Program Name:* Willaim D. Ford Federal Direct Loan Program  
*Federal Agency:* U.S. Department of Education  
*Pass-Through Entity:* None  
*Federal Award Number and Award Year:* PK268113329; July 1, 2011 to June 30, 2012

***Criteria or Specific Compliance***

In accordance with OMB A-133 Specific Compliance Supplement, "institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month 34 CFR sections 685.102(b), 685.301, and 303). (Note: The Direct Loan School Guide and yearly training documents describe the reconciliation process.)"

***Condition, Cause and Effect***

Per our inquiry of the Director of Student Financial Aid to determine if the University is in compliance with the requirement of Borrower Data Transmission and Reconciliation, we were informed that the University did not reconcile the School Account Statement (SAS) data file to the University's financial records monthly; instead the University performs this reconciliation annually.

However, there was no documentation that could prove that the University did the annual reconciliation. We also noted that the monthly SAS data file was not kept. Inquiries revealed that this deficiency was mainly due to a manpower shortage.

***Questioned Costs***

Not Applicable.

***Recommendation***

We recommend that the University establish a procedure to reconcile the School Account Statement (SAS) data file to the University's financial records monthly and maintain proper records of all related documentation.

***Views of Responsible Officials and Planned Corrective Actions***

Beginning March 2013, the Director of Financial Aid will reconcile the Student Account Statement (SAS) data file to the University's financial records each month. The reconciliation will be completed by the last day of the subsequent month and the status of the reconciliation will be reported to executive management via the Enrollment Services Weekly Flash Report.

All SAS data files and reconciliation documentation will be retained by the Office of Financial Aid.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Summary Schedule of Prior Audit Findings**

**Comments originating in the Year Ended June 30, 2011:**

***Findings Relating to the Financial Statements***

FS-2011-01      Reconcile the cash receipts log to deposits and/or revenue recorded in the general ledger on a monthly basis and that such reconciliations be reviewed by the appropriate level of supervisory or management personnel. Implement controls to ensure proper segregation of duties are in place to reduce the risk of misappropriation of University's assets.

Status: Not implemented

FS-2011-02      Take steps to revisit and evaluate the existing access rights for all personnel with any access rights to Great Plains to ensure granted access rights are consistent with job position roles and responsibilities. In addition, perform the evaluation process at least annually in order to ensure that inconsistencies are corrected and established checks and balances are maintained.

Status: Partially implemented

FS-2011-03      Enhance the policies and procedures over contributions to ensure that they are recorded in accordance with GAAP and that any restrictions on those contributions are being properly tracked to ensure they are being used for their intended purposes.

Status: Implemented

FS-2011-04      Enhance the policies and procedures to ensure all significant liabilities of the University are properly accounted for and accrued at the end of reporting periods.

Status: Partially Implemented

FS-2011-05      Implement appropriate policies and procedures such that the grants receivable and refundable grant advance accounts are analyzed and reconciled on a monthly basis as a part of its month-end close process.

Status: Implemented

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-Profit Corporation)**  
**Summary Schedule of Prior Audit Findings (continued)**

**Comments originating in the Year Ended June 30, 2011 (continued):**

***Findings Related to Federal Awards***

F-2011-01            Adopt adequate policies, controls and procedures to ensure compliance with existing regulations and adequately safeguard equipment and property against possible loss or damage.

Status: Partially Implemented

F-2011-02            Adopt measures to ensure that the timetable set for report preparation, review and submission provide for sufficient time, including contingencies, to ensure the timely submission of the FSR for the UCLA Cancer Center Partnership to Eliminate Cancer Program within the prescribed period.

Status: Implemented

F-2011-03            Improve and strengthen its existing policies and procedures surrounding Personnel Action Forms in order to ensure that forms are filled out in a consistent manner and the inclusion of the review of actual time spent to ensure compliance with federal requirements. Strengthen internal controls over compliance.

Status: Partially implemented

F-2011-04            Take steps to adequately monitor student attendance in order to determine the withdrawal, dropping out, and non-attendance of students in a timely manner. This would not only allow the timely preparation of the R2T4's, but would also ensure compliance to existing regulations related to return of Title IV funds.

Status: Not implemented

F-2011-05            Adopt adequate policies, controls and procedures to ensure compliance with existing regulations and adequately safeguard equipment and property against possible loss or damage.

Status: Partially Implemented; During the current year audit, the Historically Black Colleges and Universities program was not considered a major program and therefore was not tested, but this finding was related to the University's policy and procedures over Equipment and Real Property Management as a whole. Thus, this finding was repeated at F-2012-02.

F-2011-06            Improve and strengthen its existing policies and procedures over Personnel Action Forms to ensure compliance with federal requirements.

Status: Partially implemented; During the current year audit, the Historically Black Colleges and Universities program was not considered a major program and therefore was not tested, but this finding was related to the University's policy and procedures over Personnel Action Forms as a whole. Thus, this finding was repeated at F-2012-01.

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

(California Not-for-profit Corporation)

Financial Statements (with Independent  
Auditors' Report Thereon)

As of and For the Years Ended June 30,  
2012 and 2011

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

Table of Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4 - 5
Notes to Financial Statements	6

HASKELL  
&  
WHITE<sup>LLP</sup>

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Charles R. Drew University of Medicine and Science (a California not-for-profit corporation) (the "University") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 31, 2012 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, grants, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing results of our audit.

*Haskell & White LLP*

HASKELL & WHITE LLP

Irvine, California  
October 31, 2012



member

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Statements of Financial Position**  
**As of June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,310,000	\$ 4,509,100
Restricted cash and cash equivalents (Note 2)	2,981,000	2,944,800
Grants and contracts receivable, net (Note 3)	7,811,900	8,657,000
Prepaid expenses and other assets	1,154,900	1,593,900
Deferred charge (Note 5)	1,392,700	1,435,900
Investments and investments held by others (Note 4)	61,339,000	51,973,300
Property, plant and equipment, net (Note 5)	51,375,700	53,310,000
<b>Total assets</b>	<b>\$ 133,365,200</b>	<b>\$ 124,424,000</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 2,400,000	\$ 1,416,200
Accrued expenses	5,883,200	7,971,300
Notes payable (Note 6)	2,881,600	2,921,800
Bonds payable (Note 7)	34,570,000	34,650,000
Interest rate swap liability (Note 7)	8,681,500	4,740,300
Refundable advances (Note 8)	845,700	600,300
Deferred revenue	2,484,100	1,975,400
Obligations under capital leases	408,500	475,300
<b>Total liabilities</b>	<b>58,154,600</b>	<b>54,750,600</b>
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Unrestricted	14,891,400	15,378,000
Temporarily restricted (Note 13)	29,549,000	23,525,200
Permanently restricted (Note 13)	30,770,200	30,770,200
<b>Total net assets</b>	<b>75,210,600</b>	<b>69,673,400</b>
<b>Total liabilities and net assets</b>	<b>\$ 133,365,200</b>	<b>\$ 124,424,000</b>

See accompanying notes to financial statements.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Statements of Activities**  
**For the Years Ended June 30, 2012 and 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and gains:</b>								
Tuition and fees	\$ 11,089,300	\$ -	\$ -	\$ 11,089,300	\$ 5,227,800	\$ -	\$ -	\$ 5,227,800
Federal grants and contracts	23,092,500	5,000,000	-	28,092,500	24,423,400	5,000,000	-	29,423,400
State and local government grants and contracts	11,817,200	-	-	11,817,200	22,380,900	-	-	22,380,900
Private gifts, grants and contracts	625,700	4,248,600	-	4,874,300	24,500	4,494,300	-	4,518,800
Investment (loss) income, net (Note 4)	(1,543,500)	1,754,800	-	211,300	1,326,200	2,663,100	-	3,989,300
Auxiliary enterprises	647,100	-	-	647,100	892,700	-	-	892,700
<b>Total revenue and gains</b>	<b>45,728,300</b>	<b>11,003,400</b>	<b>-</b>	<b>56,731,700</b>	<b>54,275,500</b>	<b>12,157,400</b>	<b>-</b>	<b>66,432,900</b>
<b>Net assets released from restrictions</b>	<b>4,979,600</b>	<b>(4,979,600)</b>	<b>-</b>	<b>-</b>	<b>6,409,400</b>	<b>(6,409,400)</b>	<b>-</b>	<b>-</b>
<b>Total revenue and gains and net assets released from restrictions</b>	<b>50,707,900</b>	<b>6,023,800</b>	<b>-</b>	<b>56,731,700</b>	<b>60,684,900</b>	<b>5,748,000</b>	<b>-</b>	<b>66,432,900</b>
<b>Expenses:</b>								
Instruction	8,111,300	-	-	8,111,300	5,638,200	-	-	5,638,200
Public service	3,055,400	-	-	3,055,400	3,047,400	-	-	3,047,400
Research	20,000,200	-	-	20,000,200	21,599,600	-	-	21,599,600
Academic support	5,044,600	-	-	5,044,600	5,575,200	-	-	5,575,200
Student services	1,243,900	-	-	1,243,900	1,170,500	-	-	1,170,500
Institutional support	7,604,700	-	-	7,604,700	9,155,200	-	-	9,155,200
Special events	14,700	-	-	14,700	18,800	-	-	18,800
Operation and maintenance of plant (Note 12)	1,550,500	-	-	1,550,500	1,619,200	-	-	1,619,200
Auxiliary enterprises	628,000	-	-	628,000	620,300	-	-	620,300
<b>Total expenses</b>	<b>47,253,300</b>	<b>-</b>	<b>-</b>	<b>47,253,300</b>	<b>48,444,400</b>	<b>-</b>	<b>-</b>	<b>48,444,400</b>
<b>Change in net assets before other changes</b>	<b>3,454,600</b>	<b>6,023,800</b>	<b>-</b>	<b>9,478,400</b>	<b>12,240,500</b>	<b>5,748,000</b>	<b>-</b>	<b>17,988,500</b>
<b>Other changes:</b>								
Unrealized (loss) gain on interest rate swap (Note 7)	(3,941,200)	-	-	(3,941,200)	1,376,500	-	-	1,376,500
<b>Change in net assets</b>	<b>(486,600)</b>	<b>6,023,800</b>	<b>-</b>	<b>5,537,200</b>	<b>13,617,000</b>	<b>5,748,000</b>	<b>-</b>	<b>19,365,000</b>
<b>Net assets, beginning of year</b>	<b>15,378,000</b>	<b>23,525,200</b>	<b>30,770,200</b>	<b>69,673,400</b>	<b>1,761,000</b>	<b>17,777,200</b>	<b>30,770,200</b>	<b>50,308,400</b>
<b>Net assets, end of year</b>	<b>\$ 14,891,400</b>	<b>\$ 29,549,000</b>	<b>\$ 30,770,200</b>	<b>\$ 75,210,600</b>	<b>\$ 15,378,000</b>	<b>\$ 23,525,200</b>	<b>\$ 30,770,200</b>	<b>\$ 69,673,400</b>

See accompanying notes to financial statements.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Statements of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 5,537,200	\$ 19,365,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,844,800	2,405,600
Loss from disposal of property, plant and equipment	-	160,400
Impairment expense (recovery)	(424,700)	-
Provision (recovery) for doubtful accounts	259,700	(467,200)
Realized loss on investments	944,600	203,300
Unrealized loss (gain) on investments, net	1,304,200	(2,381,700)
Unrealized loss (gain) on interest rate swap, net	3,941,200	(1,376,500)
Changes in operating assets and liabilities, net of effects of noncash transactions:		
Grants and contracts receivable	642,500	(2,053,300)
Prepaid expenses and other assets	362,800	(195,700)
Deferred charge	43,200	38,600
Accounts payable	983,800	(2,801,800)
Accrued expenses	(2,088,100)	459,500
Refundable advances	245,400	(1,193,400)
Deferred revenue	508,700	69,000
<b>Net cash provided by operating activities</b>	<b>15,105,300</b>	<b>12,231,800</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(30,968,700)	(9,478,700)
Sale of investments	19,354,200	5,590,600
Purchases of property, plant and equipment	(466,700)	(1,656,400)
<b>Net cash used in investing activities</b>	<b>(12,081,200)</b>	<b>(5,544,500)</b>

See accompanying notes to financial statements.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Statements of Cash Flows (continued)**  
**For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(40,200)	(40,900)
Principal payments on bonds payable	(80,000)	(8,350,000)
Principal payments on capital lease obligations	(66,800)	(128,200)
	<b>(187,000)</b>	(8,519,100)
<b>Net cash used in financing activities</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,837,100</b>	(1,831,800)
<b>Cash and cash equivalents, beginning of year</b>	<b>7,453,900</b>	9,285,700
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 10,291,000</u></b>	<b><u>\$ 7,453,900</u></b>
 <b>Summary of cash and cash flow information:</b>		
Cash and cash equivalents	<b>\$ 7,310,000</b>	\$ 4,509,100
Restricted cash and cash equivalents	<b>2,981,000</b>	2,944,800
	<b>\$ 10,291,000</b>	\$ 7,453,900
 <b>Supplemental disclosure of cash flow information:</b>		
Assets acquired under capital leases	<b><u>\$ -</u></b>	<b><u>\$ 309,200</u></b>

See accompanying notes to financial statements.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements  
As of and For the Years Ended June 30, 2012 and 2011**

**(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 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. On July 5, 2011, the University received notification from Western Association of Schools and Colleges that its accreditation was reaffirmed.

*Basis of Financial Statement Presentation*

The accompanying financial statements have been prepared using the accrual basis of accounting.

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 Trustees 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. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support. See Note 13.
- *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 of the University unless otherwise stipulated by the donor or by law. See Note 13.

Certain reclassifications have been made to the financial statement information as of and for the year ended June 30, 2011 to conform to the financial statement presentation as of and for the year ended June 30, 2012.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

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

*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. These funds are classified as Level 1 in the fair value hierarchy discussed in Note 4.

*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.

Grants and contracts receivable were \$8,819,100 and \$9,461,600, and the corresponding allowance for doubtful grants and contracts receivable was \$1,007,200 and \$804,600 as of June 30, 2012 and 2011, respectively. The increase in the allowance for doubtful grants and contracts receivable was mainly attributable to the increase in specific reserves. The decrease in grants and contracts receivable was attributable to the decrease in grant revenue from reimbursable awards for which there is generally a direct relationship. See Note 3.

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. The University's refundable advance liability was \$845,700 and \$600,300 as of June 30, 2012 and 2011, respectively. The increase in the University's refundable advance liability was mainly attributable to increased efforts on behalf of the University to draw upon advance awards more frequently based on needs encompassing shorter time frames. See Note 8.

*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. Net asset value, in many instances may not equal fair value.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

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

*Investments (continued)*

A portion of the University's investments are invested with the University of California, Los Angeles ("UCLA") Foundation 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. Withdrawals from the pools are available and payable at the fair value of units redeemed at the time of withdrawal with up to 10 days prior notice. 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. See Note 4.

*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 estimated useful life of each asset, which is 35 years for buildings and improvements and five years for equipment and leasehold improvements.

The University records capital leases at the lesser of the minimum lease payments or the fair market 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 year ended June 30, 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable. However, during the year ended June 30, 2010, the University recognized an impairment loss of \$590,600 due to the closure of its onsite café and at that time the University's management had no plans to re-open the café. During the year ended June 30, 2012, the University reopened the café. In accordance with GAAP, the University recognized \$424,700 of the previously impaired assets within institutional support in the accompanying statements of activities for the year ended June 30, 2012.

*Student Tuition and Fees*

Student tuition and fees 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. Deferred tuition revenue was approximately \$1,091,300 and \$539,500 as of June 30, 2012 and 2011, respectively and are included within deferred revenue in the accompanying statements of financial position.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

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

*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 and student financial aid. 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.

The University adopted Accounting Standard Codification ("ASC") 958-205 on July 1, 2008. This pronouncement provides guidance for not-for-profit organizations on the net asset classification of donor-restricted funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and provides improved disclosures about an organization's endowment funds.

*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.

*Use of Estimates*

The preparation of 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 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, 2012 and 2011.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

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

*Income Taxes (continued)*

The Federal income tax returns of the University still open and subject to IRS examination are for the 2009 through 2011 tax years. The State of California income tax returns still open and subject to examination are for the 2008 through 2011 tax years.

*Concentration of Credit Risk*

The University holds the majority of its operating cash and cash equivalents in major financial institutions. As of June 30, 2012, 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 \$59,724,800 and \$50,162,400 as of June 30, 2012 and 2011, respectively. See Note 4.

*Fair Value of Financial Instruments*

The fair value of the University's financial instruments as of June 30, 2012 and 2011 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.

*Subsequent Events*

In July 2012, the University received notification from the National League for Nursing Accrediting Commission ("NLNAC") approving their accreditation for the School of Nursing.

Subsequent to year end, the University deposited \$1,750,000 of its restricted cash to pay down the principal bonds payable balance to \$32,820,000. See Note 7.

The University's management evaluated subsequent events through October 31, 2012, the date the financial statements were issued, and noted no material events which required additional disclosure in the financial statements.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(2) Restricted Cash**

Restricted cash and cash equivalents consist of cash held at financial institutions and money market accounts whose use is limited by donors or debt agreements to specified purposes. These funds are classified as Level 1 in the fair value hierarchy discussed in Note 4. The table below illustrates the composition of restricted cash and cash equivalents as of June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Donor-restricted funds (long-term)	\$ 754,200	\$ 747,900
Unspent bond proceeds and bond redemption reserve	195,000	184,400
Bond reserves	1,756,900	1,752,500
Reserves required by California Housing Finance Agency ("CalHFA") (Note 6)	<u>274,900</u>	<u>260,000</u>
	<u>\$ 2,981,000</u>	<u>\$ 2,944,800</u>

**(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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Federal agencies	\$ 7,936,000	\$ 8,067,700
State and local governments	602,300	816,600
Private enterprises	<u>280,800</u>	<u>577,300</u>
	8,819,100	9,461,600
Allowance for doubtful accounts	<u>(1,007,200)</u>	<u>(804,600)</u>
Grants and contracts receivable, net	<u>\$ 7,811,900</u>	<u>\$ 8,657,000</u>

**(4) Investments and Investments Held by Others**

Under the direction of agreements with the National Institutes of Health ("NIH") (see Note 13), 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 pools.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(4) Investments and Investments Held by Others (continued)**

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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
<b>Unrestricted investments:</b>		
Certificate of deposit	\$ -	\$ 123,000
Common Fund – Global Alpha Absolute Return	1,614,200	1,687,900
UC Short Term Investment Pool (“STIP”)	6,579,400	532,000
<b>Investments restricted for endowment:</b>		
UC STIP	4,137,900	16,032,000
UCLA Foundation Endowment Pool	49,007,500	33,598,400
	<u>\$ 61,339,000</u>	<u>\$ 51,973,300</u>

The composition of investment income for the years ended June 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 2,491,200	\$ 1,865,100
Realized and unrealized (loss) gain, net	(2,248,800)	2,178,400
Other investment (expense) income, net	(31,100)	(54,200)
	<u>\$ 211,300</u>	<u>\$ 3,989,300</u>

During the year ended June 30, 2011, the University opened a one year certificate of deposit account with Bank of the West (“CD”), which bears interest at a rate of 0.65%. The CD matured on October 20, 2011.

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.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(4) Investments and Investments Held by Others (continued)**

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level inputs that are significant to the fair value measurement in its entirety.

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

	As of June 30, 2012			
	Total	Level 1	Level 2	Level 3
Common Fund -				
Global Alpha	\$ 1,614,200	\$ -	\$ 1,614,200	\$ -
UC STIP	10,717,300	-	10,717,300	-
UCLA Foundation -				
Endowment Pool	<u>49,007,500</u>	-	-	<u>49,007,500</u>
	<u>\$ 61,339,000</u>	<u>\$ -</u>	<u>\$ 12,331,500</u>	<u>\$ 49,007,500</u>

	As of June 30, 2011			
	Total	Level 1	Level 2	Level 3
Certificate of deposit	\$ 123,000	\$ 123,000	\$ -	\$ -
Common Fund -				
Global Alpha	1,687,900	-	1,687,900	-
UC STIP	16,564,000	-	16,564,000	-
UCLA Foundation -				
Endowment Pool	<u>33,598,400</u>	-	-	<u>33,598,400</u>
	<u>\$ 51,973,300</u>	<u>\$ 123,000</u>	<u>\$ 18,251,900</u>	<u>\$ 33,598,400</u>

Reconciliations of the University's investment in the UCLA Foundation's Endowment Pool for the years ended June 30, 2012 and 2011, which were measured using significant unobservable inputs, are shown in the table below.

	2012	2011
<b>UCLA Foundation - Endowment Pool:</b>		
Balance, beginning of year	\$ 33,598,400	\$ 21,464,300
Interest income, net	2,157,900	1,306,600
Realized and unrealized (loss) gain, net	(2,175,000)	2,093,500
Purchases	17,500,000	10,000,000
Withdrawals	<u>(2,073,800)</u>	<u>(1,266,000)</u>
Balance, end of year	<u>\$ 49,007,500</u>	<u>\$ 33,598,400</u>

Realized and unrealized gains and losses included in income for the years ended June 30, 2012 and 2011 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3), as defined by GAAP, are reported in the statements of activities as investment income.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(5) Property, Plant and Equipment**

*General*

Property, plant and equipment consisted of the following as of June 30, 2012 and 2011:

	<b>2012</b>	2011
Land and improvements	<b>\$ 1,087,000</b>	\$ 1,087,000
Buildings and improvements	<b>56,581,900</b>	56,581,900
Leasehold improvements	<b>917,600</b>	553,600
Vehicles	<b>262,200</b>	262,100
Furniture, equipment and library books	<b>7,957,600</b>	7,426,500
Equipment acquired under capital leases	<b>639,000</b>	642,800
	<b>67,445,300</b>	66,553,900
Less: accumulated depreciation and amortization	<b>(16,069,600)</b>	(13,243,900)
Property, plant and equipment, net	<b>\$ 51,375,700</b>	\$ 53,310,000

The terms of certain restrictive grants require title of the furniture and equipment purchased in excess of various stated minimum amounts to rest with the grantor. Custody and use of this furniture and equipment may be transferred, at the option of the grantor, or title may be vested with the University upon termination of the grant. For the years ended June 30, 2012 and 2011, the cumulative gross amount of such furniture and equipment acquired under these restrictive grants was approximately \$4,094,500 and \$3,637,400, respectively, and is included in the accompanying financial statements, as management believes that it is probable such assets will be retained by the University upon termination of the grants.

*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, 2012 and 2011, the amount of the contingent purchase price, in the event of agreement termination, was approximately \$871,800 and \$980,900, respectively, and declines monthly by approximately \$9,900.

In 1988, the University entered into a similar agreement, related to another building, whereby the University's School of Allied Health Building (the "Allied Health Building") and related land was sold to the Regents through a sale and leaseback agreement with a lease term of 35 years. The Allied Health Building was capitalized at an original carrying value of approximately \$3,807,400. The difference between the total amount capitalized and the actual cash received was approximately \$1,769,400. This amount was initially recorded as a deferred charge and deferred revenue and is being amortized over the term of the lease. As of June 30, 2012 and 2011, the deferred charge balance was approximately \$1,392,700 and \$1,435,900, respectively.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(5) Property, Plant and Equipment (continued)**

*New Building*

In April 2008, construction began on the new Life Sciences Research and Nursing Education Building (“LSRNE Building”). The two-story, 63,000 square-foot building is located within the University’s main campus and was completed in September 2010. The facility houses the University’s new School of Nursing and includes state-of-the-art space for laboratory, clinical research and support functions for the College of Medicine and the College of Science and Health. The LSRNE Building was funded through a \$43,000,000 bond offering issued by the California Educational Facilities Authority (“CEFA”) and from \$7,000,000 in grants from NIH. See Note 7. The LRSNE Building was placed into service on November 30, 2010. The total capitalized cost of the LRSNE Building and a related parking structure was approximately \$43,679,700, which was transferred from construction in process to buildings and improvements on the date it was placed into service.

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. In conjunction with these agreements, the University received \$10,000,000 as a lump sum payment from the Regents. See Note 10. This amount was sourced from a bond issue from the State of California and approved and released by the Treasurer’s office through the Regents. The funds were required to be used to finance certain capital projects on behalf of the State of California. The University used such funds for expenses previously incurred to complete the LRSNE Building. As this amount was received and expended for its intended use in the same reporting period, it was recognized within unrestricted state and local government grants and contract revenue in the accompanying statement of activities for the year ended June 30, 2011 in accordance with GAAP.

*Capitalized Interest and Fees*

The University’s policy was to capitalize its net interest cost related to its bonds and letter of credit fees incurred during the construction of the LSRNE Building (discussed above) until it was placed into service on November 30, 2010. A reconciliation of total interest cost to interest expense included within institutional support in the statement of activities for the year ended June 30, 2011 is presented in the table below.

	2011
Total interest and fees	\$ 1,881,900
Capitalized interest and fees:	
Bond interest expense, net	(52,900)
Letter of credit fees	(603,500)
Remarketing fees	(23,300)
Total capitalized interest and fees	(679,700)
Interest and fees expensed	\$ 1,202,200

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(6) Notes Payable**

Notes payable consisted of the following as of June 30, 2012 and 2011:

	2012	2011
Mortgage payable to CalHFA in monthly installments of \$14,100, including interest at 7.0% per annum, with the final payment in the year 2034, secured by real property.	<b>\$ 1,912,600</b>	\$ 1,944,900
Mortgage payable, secured by a second deed of trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$365,100 and \$344,000 was accrued as of June 30, 2012 and 2011, 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 agreement with CalHFA. There were no payments due as of June 30, 2012 or 2011. The final payment will be in year 2034.	<b>704,700</b>	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.	<b>264,300</b>	272,200
	<b>\$ 2,881,600</b>	\$ 2,921,800

Future minimum annual principal payments under notes payable outstanding as of June 30, 2012 for the next five fiscal years ending June 30 and thereafter, are as follows:

2013	\$ 50,400
2014	53,300
2015	56,900
2016	59,500
2017	62,500
Thereafter	1,894,300
	2,176,900
Repayments based on residual receipts	704,700
	<b>\$ 2,881,600</b>

**(7) Bonds Payable**

*General*

On November 1, 2007, the University entered into an agreement with CEFA for the issuance of \$43,000,000 of variable rate demand revenue bonds (the "Bonds") for the acquisition, design, construction and equipment and furnishings of the LSRNE Building. The Bonds bear interest at a variable rate determined weekly by the remarketing agent, Piper Jaffray Financial Products Inc., not to exceed 10%, which may, at the election of the University's management be converted into a daily, auction, long-term or fixed rate (as defined by the Bond's closing documents). The interest rates for the years ended June 30, 2012 and 2011 ranged from 0.15% to 1.60% and 0.2% to 0.5%, respectively. The interest rate was 1.55% and 0.2% as of June 30, 2012 and 2011, respectively.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(7) Bonds Payable (continued)**

*General (continued)*

On November 1, 2010, the University completed the first scheduled principal redemption of \$100,000, and on December 3, 2010, the University completed a one-time early principal redemption of \$8,250,000. Subsequent to June 30, 2012, the University deposited \$1,750,000 of its restricted cash to pay down the principal bonds payable balance to \$32,820,000.

Scheduled annual principal maturities on the Bonds outstanding as of June 30, 2012 for the next five fiscal years ending June 30 and thereafter, are as follows:

2013	\$ 120,000
2014	120,000
2015	160,000
2016	160,000
2017	200,000
Thereafter	<u>33,810,000</u>
	<u>\$ 34,570,000</u>

*Letter of Credit*

The Bonds require the maintenance of a letter of credit ("LOC") in the amount of the face value of the Bonds plus 51 days of interest, which amounted to approximately \$35,053,000 and \$35,134,200 as of June 30, 2012 and 2011, respectively. The LOC with Santander Bank (previously Sovereign Bank) expires on November 15, 2014 and will permit the University to draw amounts sufficient to pay (a) the principal of the Bonds when due at maturity, upon earlier redemption, or upon acceleration, (b) regularly scheduled interest on the Bonds or payments of interest on a date established for the redemption or acceleration of the Bonds, and (c) the purchase price of Bonds tendered or subject to mandatory tender and not remarketed. In the event the bank makes any payments in satisfaction of bond principal, such payment will be considered a tender advance. Any such tender advances will be converted into a term loan and will be payable according to the bond schedule above, until the expiration of the LOC, when all such term loans will become due and payable. Any advances made by the bank in satisfaction of interest payments are due on demand. There was no outstanding balance or draw against the LOC as of June 30, 2012 or 2011.

*Maturity*

The Bonds are due to mature on November 1, 2042, subject to prior redemption, and are further subject to optional, extraordinary or mandatory redemption. Wells Fargo Bank (the "Bank") may also accelerate the maturity of the Bonds and draw upon the LOC to retire the Bonds in certain events of default.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(7) Bonds Payable (continued)**

*Bond Issuance Costs*

The University incurred approximately \$775,400 of bond issuance costs, which is included as a component of prepaid expenses, and is being amortized over the life of the Bonds (35 years), using a method that approximates a level interest yield. Amortization expense was approximately \$19,100 and \$22,200 for the years ended June 30, 2012 and 2011, respectively.

*Covenants, Bank Waivers and Modifications*

The Bonds and LOC have restrictive covenants measured every six-months, which include meeting certain debt coverage and leverage ratios, and maintaining sufficient cash to cover the University's operating expenses for two months.

On June 29, 2010, the University and the Bank entered into a Waiver and Modification Agreement ("the Agreement"). The Agreement outlined new requirements for the University. On December 20, 2010, the University and the Bank entered into a New Waiver and Modification Agreement (the "New Agreement"). The New Agreement outlines new and/or modified requirements for the University, including the Bank's receipt of leasehold mortgages on all unencumbered real estate owned by the University. The University is in compliance with the aforementioned agreements as of June 30, 2012 and 2011.

*Bond Rating*

Municipal ratings are opinions for the investment quality of issuers and issues in the U.S. municipal and tax-exempt markets. As such, these ratings incorporate an assessment of the default probability and loss severity of these issuers and issues. Municipal ratings are based upon the analysis of four primary factors relating to municipal finance: economy, debt, finances and administration/management strategies. Each of these factors is evaluated individually and for its effect on the other factors in the context of the entity's ability to repay its debt. As of June 30, 2012 and 2011, Standard & Poor's assigned the University an BBB+/A2 and A/A1 credit rating, respectively. The bond credit rating is based on the letter of credit issued by Santander Bank.

*Swap Agreement*

The University entered into an interest rate swap agreement with Piper Jaffray Financial Products, Inc., who is also the remarketing agent, as stated above, effective March 1, 2008, which effectively fixes the interest rate at 3.6% on \$33,000,000 of the total original \$43,000,000 principal on the Bonds.

In November 2011, Piper Jaffray assigned the agreement to Morgan Stanley. Unrealized gains and losses on the interest rate swap agreement are measured at fair value on a recurring basis using unobservable inputs and are reported within other changes in the accompanying statements of activities. Beginning with the year ended June 30, 2012, the University hired a valuation specialist to determine the fair value of the swap as of year-end. The specialist used similar unobservable inputs as in the previous years, but also took into consideration the University's credit risk when valuing the interest rate swap agreement. The valuation of this agreement resulted in an unrealized net (loss) gain of approximately \$(3,941,200) and \$1,376,500 for the years ended June 30, 2012 and 2011, respectively.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(7) Bonds Payable (continued)**

*Swap Agreement (continued)*

The University's interest rate swap, which was valued at approximately \$8,681,500 and \$4,740,300 as of June 30, 2012 and 2011, respectively, was categorized as Level 3 in GAAP fair value hierarchy (described in Note 4) as of the same dates. A reconciliation of the University's interest rate swap for the years ended June 30, 2012 and 2011, which was measured using significant unobservable inputs, is presented in the table below.

	2012	2011
<b>Interest rate swap:</b>		
Balance, beginning of year	\$ 4,740,300	\$ 6,116,800
Unrealized loss (gain), net	3,941,200	(1,376,500)
Balance, end of year	\$ 8,681,500	\$ 4,740,300

**(8) Refundable Advances**

Refundable advances consisted of the following as of June 30, 2012 and 2011:

	2012	2011
<b>Advances on grants and contracts:</b>		
Federal agencies	\$ 470,100	\$ 211,500
State and local governments	101,500	115,200
Private enterprise	12,000	11,500
	583,600	338,200
<b>Perkins loans and others</b>	262,100	262,100
	\$ 845,700	\$ 600,300

**(9) Commitments and Contingencies**

*Obligations under Capital Leases*

The University leased certain equipment under capital lease agreements with a carrying value of approximately \$408,500 and \$475,300 as of June 30, 2012 and 2011, respectively. As of June 30, 2012, the estimated future minimum lease payments under capital leases were as follows:

Year ending June 30:	
2013	\$ 209,000
2014	133,800
2015	74,300
2016	31,000
	448,100
Less: interest (7.5%)	(39,600)
Present value of future minimum payments	\$ 408,500

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(9) Commitments and Contingencies (continued)**

*Operating Leases*

The University leases office space and equipment under non-cancelable operating lease agreements expiring at various dates through June 2016. As of June 30, 2012, the estimated future minimum rental payments under these leases is presented in the below table.

Year ending June 30:	
2013	\$ 166,400
2014	84,600
2015	35,400
2016	<u>11,100</u>
	<u>\$ 297,500</u>

Operating lease expense, net of sublease rental income, was approximately \$327,200 and \$434,100 for the years ended June 30, 2012 and 2011, respectively.

*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.

*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. Based on management's assessment of current facts and circumstances, the University has accrued \$632,500 as of June 30, 2012 for the resolution of all such matters. Related amounts are reflected in the accompanying statements of financial position in accrued expenses.

**(10) Related-party Transactions**

The University receives funding from the State of California through contractual agreements with the Regents to support its undergraduate medical education program and a program of clinical health science education, research and public service. For the years ended June 30, 2012 and 2011, such amounts, were approximately \$11,923,500 and \$21,265,900, respectively, and are included in state and local government grants and contracts revenue in the accompanying statements of activities. See Note 5.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(11) Pension Plan**

The University has a defined contribution, non-contributory pension plan covering substantially all employees who have completed one year of service. In February, 2009, the Board of Trustees approved the temporary suspension of all contributions to the plan. Effective July 1, 2011, the Board of Trustees reinstated contributions to the plan at 2% of an eligible employee's compensation. As such, the University had pension plan expense of \$306,200 and \$0 for the years ended June 30, 2012 and 2011, respectively.

**(12) Allocation of Expenses**

The University allocated expenses related to the operation and maintenance of plant ("Plant") to the supporting and program services benefited for the years ended June 30, 2012 and 2011 as illustrated in the below tables.

	2012		
	Total	Expenses (as reported)	Plant
<b>Program services:</b>			
Instruction	\$ 8,435,700	\$ 8,111,300	\$ 324,400
Public service	3,177,600	3,055,400	122,200
Research	20,800,000	20,000,200	799,800
Academic support	5,044,600	5,044,600	-
Student services	1,243,900	1,243,900	-
	<u>38,701,800</u>	<u>37,455,400</u>	<u>1,246,400</u>
<b>Supporting services:</b>			
Institutional support	7,908,800	7,604,700	304,100
Special events	14,700	14,700	-
	<u>7,923,500</u>	<u>7,619,400</u>	<u>304,100</u>
<b>Plant</b>	-	1,550,500	(1,550,500)
<b>Auxiliary enterprises</b>	628,000	628,000	-
<b>Total expenses</b>	<u>\$ 47,253,300</u>	<u>\$ 47,253,300</u>	<u>\$ -</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE**  
**(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)**  
**As of and For the Years Ended June 30, 2012 and 2011**

**(12) Allocation of Expenses (continued)**

	2011		
	Total	Expenses (as reported)	Plant
<b>Program services:</b>			
Instruction	\$ 5,869,600	\$ 5,638,200	\$ 231,400
Public service	3,172,500	3,047,400	125,100
Research	22,486,400	21,599,600	886,800
Academic support	5,575,200	5,575,200	-
Student services	1,170,500	1,170,500	-
	<u>38,274,200</u>	<u>37,030,900</u>	<u>1,243,300</u>
<b>Supporting services:</b>			
Institutional support	9,531,100	9,155,200	375,900
Special events	18,800	18,800	-
	<u>9,549,900</u>	<u>9,174,000</u>	<u>375,900</u>
<b>Plant</b>	-	1,619,200	(1,619,200)
<b>Auxiliary enterprises</b>	620,300	620,300	-
<b>Total expenses</b>	<u>\$ 48,444,400</u>	<u>\$ 48,444,400</u>	<u>\$ -</u>

**(13) Endowment Funds**

*General*

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

	As of June 30, 2012			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 51,293,300	\$ (5,804,600)	\$ 26,327,700	\$ 30,770,200
Board-designated	34,000	34,000	-	-
	<u>\$ 51,327,300</u>	<u>\$ (5,770,600)</u>	<u>\$ 26,327,700</u>	<u>\$ 30,770,200</u>
	As of June 30, 2011			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 48,218,800	\$ (4,084,300)	\$ 21,532,900	\$ 30,770,200
Board-designated	34,100	34,100	-	-
	<u>\$ 48,252,900</u>	<u>\$ (4,050,200)</u>	<u>\$ 21,532,900</u>	<u>\$ 30,770,200</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(13) Endowment Funds (continued)**

*General (continued)*

The changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	<b>2012</b>			
	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
June 30, 2011	\$ 48,252,900	\$ (4,050,200)	\$ 21,532,900	\$ 30,770,200
Contributions	5,000,000	-	5,000,000	-
Appropriations	(1,960,000)	-	(1,960,000)	-
Investment				
income, net	2,437,400	-	2,437,400	-
Investment				
depreciation, net	(2,403,000)	(1,720,400)	(682,600)	-
June 30, 2012	<u>\$ 51,327,300</u>	<u>\$ (5,770,600)</u>	<u>\$ 26,327,700</u>	<u>\$ 30,770,200</u>
	<b>2011</b>			
	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
June 30, 2010	\$ 41,404,500	\$ (5,346,800)	\$ 15,981,100	\$ 30,770,200
Contributions	5,000,000	-	5,000,000	-
Appropriations	(2,111,300)	-	(2,111,300)	-
Investment				
income, net	1,780,700	100	1,780,600	-
Investment				
appreciation, net	2,179,000	1,296,500	882,500	-
June 30, 2011	<u>\$ 48,252,900</u>	<u>\$ (4,050,200)</u>	<u>\$ 21,532,900</u>	<u>\$ 30,770,200</u>

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(13) Endowment Funds (continued)**

*General (continued)*

A description of amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
<b>Permanently restricted net assets:</b>		
Portion of perpetual endowment funds required to be retained permanently by either explicit donor stipulation or law	<b>\$ 30,770,200</b>	\$ 30,770,200
Total permanently restricted net assets	<b>\$ 30,770,200</b>	\$ 30,770,200
<b>Temporarily restricted net assets:</b>		
<b>Endowments:</b>		
Portion of term endowment funds subject to time restriction(s)	<b>\$ 25,000,000</b>	\$ 20,000,000
Portion of perpetual endowment funds subject to time or purpose restriction(s)	<b>1,327,700</b>	1,532,900
	<b>26,327,700</b>	21,532,900
<b>Other</b>	<b>3,221,300</b>	1,992,300
<b>Total temporarily restricted net assets</b>	<b>\$ 29,549,000</b>	\$ 23,525,200

**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 UPMIFA.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(13) Endowment Funds (continued)**

*Endowment Funds with Deficits*

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of temporarily restricted net assets or unrestricted net assets. Such amounts were approximately \$5,770,600 and \$4,050,200 as of June 30, 2012 and 2011, respectively.

*Investment Strategy*

Consistent with the investment and prudent spending policies stated above, 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 overall rate of return objective for the portfolio (net of fees) is the Consumer Price Index plus 6%, which is consistent with the risk levels established by the Board of Trustees.

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 4.0% and 4.5% of the endowment principal invested for the years ended June 30, 2012 and 2011, respectively. In accordance with this policy, the University's Board of Trustees authorized spending of approximately \$1,960,000 and \$2,111,300 for the years ended June 30, 2012 and 2011, respectively.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE  
(California Not-for-profit Corporation)**

**Notes to the Financial Statements (continued)  
As of and For the Years Ended June 30, 2012 and 2011**

**(13) Endowment Funds (continued)**

*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 were \$29,000,000 as of June 30, 2012. 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:

- Faculty and professional development, faculty research, teaching resource center and an instructional program for faculty.
- Research infrastructure.

In addition, the University had other permanently restricted endowments of approximately \$1,770,200 as of both June 30, 2012 and 2011, 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.

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, 2012. The corpus of such award 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 award date for each \$5,000,000 increment), 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.