

**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,
2014 and 2013

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Charles R. Drew University of Medicine and Science, a California not-for-profit corporation (the "University"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles R. Drew University of Medicine and Science as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Haskell & White LLP

HASKELL & WHITE LLP

November 13, 2014
Irvine, California

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

Statements of Financial Position
As of June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 11,423,100	\$ 8,041,100
Restricted cash and cash equivalents (Note 2)	494,400	682,900
Grants and contracts receivable, net (Note 3)	10,736,400	9,215,100
Prepaid expenses and other assets	1,209,700	1,651,900
Deferred charge (Note 5)	1,290,900	1,344,600
Investments and investments held by others (Note 4)	86,615,500	75,179,100
Property, plant and equipment, net (Note 5)	47,152,200	48,826,200
Total assets	\$ 158,922,200	\$ 144,940,900
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 2,474,300	\$ 2,566,000
Accrued expenses	4,749,500	4,293,400
Notes payable (Note 6)	2,797,500	2,825,700
Bonds payable (Note 7)	32,585,000	32,700,000
Interest rate swap liability (Note 7)	5,918,800	4,329,400
Refundable advances (Note 8)	1,755,500	1,788,400
Deferred revenue	2,771,700	3,883,100
Obligations under capital leases (Note 9)	99,600	222,500
Total liabilities	53,151,900	52,608,500
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Unrestricted	25,472,700	23,943,800
Temporarily restricted (Note 13)	46,027,400	37,618,400
Permanently restricted (Note 13)	34,270,200	30,770,200
Total net assets	105,770,300	92,332,400
Total liabilities and net assets	\$ 158,922,200	\$ 144,940,900

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, 2014 and 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and gains:								
Tuition and fees	\$ 12,580,300	\$ -	\$ -	\$ 12,580,300	\$ 12,574,400	\$ -	\$ -	\$ 12,574,400
Federal grants and contracts	22,399,000	4,925,000	-	27,324,000	19,990,500	5,000,000	-	24,990,500
State and local government grants and contracts	11,501,400	-	-	11,501,400	12,603,700	-	-	12,603,700
Private gifts, grants and contracts	608,500	1,922,600	2,500,000	5,031,100	668,600	3,554,100	-	4,222,700
Investment income, net (Note 4)	2,124,700	6,695,400	-	8,820,100	3,948,800	3,799,100	-	7,747,900
Auxiliary enterprises	927,000	-	-	927,000	934,000	-	-	934,000
Total revenue and gains	50,140,900	13,543,000	2,500,000	66,183,900	50,720,000	12,353,200	-	63,073,200
Transfer of net assets due to donor restrictions (Note 13)	-	(1,000,000)	1,000,000	-	-	-	-	-
Net assets released from restrictions	4,134,000	(4,134,000)	-	-	4,283,800	(4,283,800)	-	-
Total revenue and gains and net assets released from restrictions	54,274,900	8,409,000	3,500,000	66,183,900	55,003,800	8,069,400	-	63,073,200
Expenses:								
Instruction	7,331,500	-	-	7,331,500	8,384,200	-	-	8,384,200
Public service	1,735,800	-	-	1,735,800	2,783,400	-	-	2,783,400
Research	20,520,900	-	-	20,520,900	18,451,200	-	-	18,451,200
Academic support	5,378,900	-	-	5,378,900	3,900,800	-	-	3,900,800
Student services	1,528,700	-	-	1,528,700	1,480,600	-	-	1,480,600
Institutional support	11,847,600	-	-	11,847,600	12,721,400	-	-	12,721,400
Special events	60,400	-	-	60,400	28,000	-	-	28,000
Operation and maintenance of plant (Note 12)	1,900,600	-	-	1,900,600	1,591,100	-	-	1,591,100
Auxiliary enterprises	852,200	-	-	852,200	962,800	-	-	962,800
Total expenses	51,156,600	-	-	51,156,600	50,303,500	-	-	50,303,500
Change in net assets before other changes	3,118,300	8,409,000	3,500,000	15,027,300	4,700,300	8,069,400	-	12,769,700
Other changes:								
Unrealized (loss) gain on interest rate swap (Note 7)	(1,589,400)	-	-	(1,589,400)	4,352,100	-	-	4,352,100
Change in net assets	1,528,900	8,409,000	3,500,000	13,437,900	9,052,400	8,069,400	-	17,121,800
Net assets, beginning of year	23,943,800	37,618,400	30,770,200	92,332,400	14,891,400	29,549,000	30,770,200	75,210,600
Net assets, end of year	\$ 25,472,700	\$ 46,027,400	\$ 34,270,200	\$ 105,770,300	\$ 23,943,800	\$ 37,618,400	\$ 30,770,200	\$ 92,332,400

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 13,437,900	\$ 17,121,800
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,665,200	2,860,600
Loss from disposal of property, plant and equipment	100	188,600
Provision (recovery) for doubtful accounts	233,600	(499,300)
Realized gain on investments	(808,000)	(2,251,800)
Unrealized gain on investments, net	(6,180,500)	(4,291,100)
Unrealized loss (gain) on interest rate swap, net	1,589,400	(4,352,100)
Changes in operating assets and liabilities, net of effects of noncash transactions:		
Grants and contracts receivable	(1,696,100)	(1,131,800)
Prepaid expenses and other assets	365,000	(315,100)
Deferred charge	53,700	48,100
Accounts payable	(91,700)	166,000
Accrued expenses	456,100	(1,589,800)
Refundable advances	(32,900)	942,700
Deferred revenue	(1,111,400)	1,399,000
Net cash provided by operating activities	8,880,400	8,295,800
Cash flows from investing activities:		
Purchase of investments	(19,037,800)	(16,176,200)
Sale of investments	14,589,800	8,879,000
Purchases of property, plant and equipment	(972,800)	(453,700)
Net cash used in investing activities	(5,420,800)	(7,750,900)
Cash flows from financing activities:		
Principal payments on notes payable	(28,200)	(55,900)
Principal payments on bonds payable	(115,000)	(1,870,000)
Principal payments on capital lease obligations	(122,900)	(186,000)
Net cash used in financing activities	(266,100)	(2,111,900)
Net increase (decrease) in cash and cash equivalents	3,193,500	(1,567,000)
Cash and cash equivalents, beginning of year	8,724,000	10,291,000
Cash and cash equivalents, end of year	\$ 11,917,500	\$ 8,724,000

See accompanying notes to financial statements.

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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Statements of Cash Flows (continued)
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Summary of cash and cash flow information:		
Cash and cash equivalents	\$ 11,423,100	\$ 8,041,100
Restricted cash and cash equivalents	<u>494,400</u>	<u>682,900</u>
Total cash and cash equivalents	<u>\$ 11,917,500</u>	<u>\$ 8,724,000</u>
 Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 272,200</u>	<u>\$ 435,600</u>
 Supplemental non-cash activities information:		
Disposal of property, plant and equipment	<u>\$ 4,300</u>	<u>\$ 1,745,300</u>

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, 2014 and 2013**

(1) Organization and Summary of Significant Accounting Policies

Overview

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

Basis of Financial Statement Presentation

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

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.
- *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.

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.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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**Notes to the Financial Statements (continued)
As of and For the Years Ended June 30, 2014 and 2013**

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

Grants and Contracts Receivable and Refundable Advances (continued)

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

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.

**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, 2014 and 2013**

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

Property, Plant and Equipment (continued)

During the year ended June 30, 2014 and 2013, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

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 tuition revenue. Deferred tuition revenue was approximately \$1,480,800 and \$1,538,500 as of June 30, 2014 and 2013, respectively and are included within deferred revenue in the accompanying statements of financial position.

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, as 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.

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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Notes to the Financial Statements (continued)
As of and For the Years Ended June 30, 2014 and 2013

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

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, 2014 and 2013.

The Federal income tax returns of the University still open and subject to IRS examination are for the 2011 through 2013 tax years. The State of California income tax returns still open and subject to examination are for the 2010 through 2013 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, 2014, 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 \$84,691,000 and \$73,390,900 as of June 30, 2014 and 2013, respectively. See Note 4.

Fair Value of Financial Instruments

The fair value of the University's financial instruments as of June 30, 2014 and 2013 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.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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**Notes to the Financial Statements (continued)
As of and For the Years Ended June 30, 2014 and 2013**

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

New Accounting Pronouncements

Management has reviewed the relevant new accounting pronouncements and determined that they have no material effect on the financial statements for the year ended June 30, 2014.

Subsequent Events

The University's management evaluated subsequent events that occurred through November 13, 2014, the date the financial statements were available to be issued.

On October 10, 2014, the University agreed with Santander Bank to extend the letter of credit for 12 months (see note 7).

(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, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Donor-restricted funds (long-term)	\$ 261,000	\$ 259,000
Unspent bond proceeds and bond redemption reserve	78,900	187,900
Reserves required by California Housing Finance Agency ("CalHFA") (Note 6)	<u>154,500</u>	<u>236,000</u>
	<u>\$ 494,400</u>	<u>\$ 682,900</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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Federal agencies	\$ 7,877,800	\$ 6,941,700
State and local governments	461,700	866,300
Private enterprises	<u>2,957,900</u>	<u>2,142,900</u>
	11,297,400	9,950,900
Allowance for doubtful accounts	<u>(561,000)</u>	<u>(735,800)</u>
Grants and contracts receivable, net	<u>\$ 10,736,400</u>	<u>\$ 9,215,100</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.

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**Notes to the Financial Statements (continued)
As of and For the Years Ended June 30, 2014 and 2013**

(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, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Unrestricted investments:		
Common Fund – Global Alpha Absolute Return	\$ 1,924,500	\$ 1,788,200
UC Short Term Investment Pool (“STIP”)	10,348,600	9,210,600
Investments restricted for endowment:		
UC STIP	2,177,000	4,789,900
UCLA Foundation Endowment Pool	<u>72,165,400</u>	<u>59,390,400</u>
	<u>\$ 86,615,500</u>	<u>\$ 75,179,100</u>

The composition of investment income for the years ended June 30, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 2,195,500	\$ 1,672,100
Realized and unrealized gain (loss), net	6,988,500	6,542,900
Other investment (expense) income, net	<u>(363,900)</u>	<u>(467,100)</u>
	<u>\$ 8,820,100</u>	<u>\$ 7,747,900</u>

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, 2014 and 2013**

(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, 2014			
	Total	Level 1	Level 2	Level 3
Common Fund -				
Global Alpha	\$ 1,924,500	\$ -	\$ 1,924,500	\$ -
UC STIP	12,525,600	-	12,525,600	-
UCLA Foundation -				
Endowment Pool	72,165,400	-	-	72,165,400
	\$ 86,615,500	\$ -	\$ 14,450,100	\$ 72,165,400

	As of June 30, 2013			
	Total	Level 1	Level 2	Level 3
Common Fund -				
Global Alpha	\$ 1,788,200	\$ -	\$ 1,788,200	\$ -
UC STIP	14,000,500	-	14,000,500	-
UCLA Foundation -				
Endowment Pool	59,390,400	-	-	59,390,400
	\$ 75,179,100	\$ -	\$ 15,788,700	\$ 59,390,400

Reconciliations of the University's investment in the UCLA Foundation's Endowment Pool for the years ended June 30, 2014 and 2013, which were measured using significant unobservable inputs (level 3), are shown in the table below:

	2014	2013
UCLA Foundation - Endowment Pool:		
Balance, beginning of year	\$ 59,390,400	\$ 49,007,500
Investment income, net	1,367,000	978,700
Realized and unrealized gain (loss), net	6,852,200	6,368,800
Purchases	7,675,100	5,500,000
Withdrawals	(3,119,300)	(2,464,600)
Balance, end of year	\$ 72,165,400	\$ 59,390,400

Realized and unrealized gains and losses for the years ended June 30, 2014 and 2013 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.

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**Notes to the Financial Statements (continued)
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(5) Property, Plant and Equipment

General

Property, plant and equipment consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Land and improvements	\$ 1,087,000	\$ 1,087,000
Buildings and improvements	56,746,700	56,581,900
Leasehold improvements	1,087,800	1,074,600
Vehicles	273,800	266,400
Furniture, equipment and library books	7,225,400	6,504,800
Equipment acquired under capital leases	639,000	639,000
Construction in progress	62,500	-
	67,122,200	66,153,700
Less: accumulated depreciation and amortization	(19,970,000)	(17,327,500)
Property, plant and equipment, net	\$ 47,152,200	\$ 48,826,200

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, 2014 and 2013, the cumulative gross amount of such furniture and equipment acquired under these restrictive grants was approximately \$3,723,200 and \$3,710,100, 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, 2014 and 2013, the amount of the contingent purchase price, in the event of agreement termination, was approximately \$634,000 and \$752,900, 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, 2014 and 2013, the deferred charge balance was approximately \$1,290,900 and \$1,344,600, respectively.

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(5) Property, Plant and Equipment (continued)

Life Sciences Research and Nursing Education 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"), see Note 7, and from \$7,000,000 in grants from NIH. 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.

(6) Notes Payable

Notes payable consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Mortgage payable to CalHFA in monthly installments of \$15,000, including interest at 7.75% per annum, with the final payment in the year 2034, secured by real property. There was no accrued interest as of June 30, 2014 or 2013.	\$ 1,842,800	\$ 1,863,400
Mortgage payable, secured by a second deed of trust, payable to CalHFA, bearing interest at 3% per annum. Interest of \$407,400 and \$386,200 was accrued as of June 30, 2014 and 2013, 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, 2014 or 2013. The final payment will be in year 2034.	704,700	704,700
Mortgage payable, secured by a third deed of trust, payable to the County of Los Angeles Community Development Commission, bearing interest at 3% per annum. Monthly payment of principal and interest totals \$1,300. The final payment will be in year 2035. There was no accrued interest as of June 30, 2014 or 2013.	250,000	257,600
	\$ 2,797,500	\$ 2,825,700

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**Notes to the Financial Statements (continued)
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(6) Notes Payable (continued)

Future minimum annual principal payments due under notes payable outstanding as of June 30, 2014 for the next five fiscal years ending June 30 and thereafter, are as follows:

2015	\$	48,600
2016		52,100
2017		55,900
2018		59,900
2019		64,200
Thereafter		<u>1,812,100</u>
		2,092,800
Repayments based on residual receipts		<u>704,700</u>
		<u>\$ 2,797,500</u>

(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, 2014 and 2013 ranged from 0.73% to 0.88% and 0.88% to 1.55%, respectively. The interest rate was 0.74% and 0.88% as of June 30, 2014 and 2013, respectively.

On November 1, 2010, the University completed the first scheduled principal redemption of \$100,000; on December 3, 2010, the University completed an early principal redemption of \$8,250,000; and on August 1, 2012, the University completed another early principal redemption of \$1,750,000.

Scheduled annual principal maturities on the Bonds outstanding as of June 30, 2014 for the next five fiscal years ending June 30 and thereafter, are as follows:

2015	\$	150,000
2016		150,000
2017		190,000
2018		190,000
2019		270,000
Thereafter		<u>31,635,000</u>
		<u>\$ 32,585,000</u>

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(7) Bonds Payable (continued)

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 \$33,041,800 and \$33,156,900 as of June 30, 2014 and 2013, 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, 2014 or 2013.

On October 10, 2014, the University agreed with Santander Bank to extend the letter of credit for 12 months. The new expiration date of the letter of credit is November 15, 2015. The covenants for liquidity and debt coverage were modified.

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. The trustee, 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.

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 \$18,500 and \$46,100 for the years ended June 30, 2014 and 2013, respectively.

Covenants and Waivers

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. The University was in compliance with the aforementioned covenants as of June 30, 2014 and 2013.

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. Standard & Poor's assigned the University a credit rating of BBB/A-2 as of June 30, 2014 and 2013. The bond credit rating is based on the letter of credit issued by Santander Bank.

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**Notes to the Financial Statements (continued)
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(7) Bonds Payable (continued)

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 of approximately \$1,589,400 for the year ended June 30, 2014, and an unrealized net gain of approximately \$4,352,100 for the year ended June 30, 2013.

The University's interest rate swap, which was valued at approximately \$5,918,800 and \$4,329,400 as of June 30, 2014 and 2013, 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, 2014 and 2013, which was measured using significant unobservable inputs, is presented in the table below:

	<u>2014</u>	<u>2013</u>
Interest rate swap:		
Balance, beginning of year	\$ 4,329,400	\$ 8,681,500
Unrealized loss (gain)	<u>1,589,400</u>	<u>(4,352,100)</u>
Balance, end of year	<u>\$ 5,918,800</u>	<u>\$ 4,329,400</u>

(8) Refundable Advances

Refundable advances consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Advances on grants and contracts:		
Federal agencies	\$ 939,500	\$ 943,000
State and local governments	542,800	564,900
Private enterprise	<u>11,100</u>	<u>18,400</u>
	1,493,400	1,526,300
Perkins loans and others	<u>262,100</u>	<u>262,100</u>
	<u>\$ 1,755,500</u>	<u>\$ 1,788,400</u>

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**Notes to the Financial Statements (continued)
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(9) Commitments and Contingencies

Obligations under Capital Leases

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

	<u>2014</u>	<u>2013</u>
Gross value of equipment under lease	\$ 309,183	\$ 639,049
Less: accumulated depreciation	<u>(221,581)</u>	<u>(434,633)</u>
Net book value	<u>\$ 87,602</u>	<u>\$ 204,416</u>

As of June 30, 2014, the estimated future minimum lease payments under capital leases were as follows:

Year ending June 30:	
2015	\$ 74,300
2016	<u>31,000</u>
	105,300
Less: interest (7.5%)	<u>(5,700)</u>
Present value of future minimum payments	<u>\$ 99,600</u>

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, 2014, the future minimum rental payments under these leases are presented in as follows:

Year ending June 30:	
2015	\$ 35,400
2016	<u>11,100</u>
	<u>\$ 46,500</u>

Operating lease expense, net of sublease rental income, was approximately \$100,100 and \$211,900 for the years ended June 30, 2014 and 2013, 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.

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.

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**Notes to the Financial Statements (continued)
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(9) Commitments and Contingencies (continued)

Legal Matters

The University is subject to various litigation claims that arise in the ordinary course of business. It is the opinion of the University's management, after consultation with its legal counsel, that the ultimate disposition of these matters will not have a material adverse effect on the University's financial position. Based on management's assessment of current facts and circumstances, the University has accrued \$325,000 and \$0 as of June 30, 2014 and 2013, respectively, 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, 2014 and 2013, such amounts, were approximately \$10,607,500 and \$11,706,300, respectively, and are included in state and local government grants and contracts revenue in the accompanying statements of activities.

Drew Cares International ("DCI"), a California non-profit organization, is contracted to hire and manage overseas labor on certain grants. The University follows Accounting Standards Codification ("ASC") 958-810, Consolidation for Not-for-Profit Entities. Under ASC 958-810, the reporting entity is required to analyze its relationships with other not-for-profit entities in order to determine if the reporting entity has control over the other not-for-profit entity. In accordance with ASC 958-810, the University analyzed its relationship with DCI and determined that the University is not required to consolidate the financial statements of DCI.

(11) Pension Plan

The University has a defined contribution, non-contributory pension plan covering substantially all employees who have completed one year of service. On June 1, 2013, the Board of Trustees approved two increases to the University's contribution to the plan: 1% effective January 1, 2013, and 1% effective July 1, 2013. Therefore, as of July 1, 2013 the retirement contribution is 4%. On May 31, 2014, the Board of Trustees approved a 1% increase to the contribution rate effective July 1, 2014; therefore, effective July 1, 2014, the retirement contribution rate was 5%. As such, the University had pension plan expense of \$619,400 and \$420,500 for the years ended June 30, 2014 and 2013, respectively.

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Notes to the Financial Statements (continued)
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(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, 2014 and 2013 as illustrated in the below tables.

	2014		
	Total	Expenses (as reported)	Plant
Program services:			
Instruction	\$ 7,667,800	\$ 7,331,500	\$ 336,300
Public service	1,815,500	1,735,800	79,700
Research	21,462,200	20,520,900	941,300
Academic support	5,378,900	5,378,900	-
Student services	1,528,700	1,528,700	-
	<u>37,853,100</u>	<u>36,495,800</u>	<u>1,357,300</u>
Supporting services:			
Institutional support	12,390,900	11,847,600	543,300
Special events	60,400	60,400	-
	<u>12,451,300</u>	<u>11,908,000</u>	<u>543,300</u>
Plant	-	1,900,600	(1,900,600)
Auxiliary enterprises	852,200	852,200	-
Total expenses	<u>\$ 51,156,600</u>	<u>\$ 51,156,600</u>	<u>\$ -</u>
	2013		
	Total	Expenses (as reported)	Plant
Program services:			
Instruction	\$ 8,699,300	\$ 8,384,200	\$ 315,100
Public service	2,888,000	2,783,400	104,600
Research	19,144,600	18,451,200	693,400
Academic support	3,900,800	3,900,800	-
Student services	1,480,600	1,480,600	-
	<u>36,113,300</u>	<u>35,000,200</u>	<u>1,113,100</u>
Supporting services:			
Institutional support	13,199,400	12,721,400	478,000
Special events	28,000	28,000	-
	<u>13,227,400</u>	<u>12,749,400</u>	<u>478,000</u>
Plant	-	1,591,100	(1,591,100)
Auxiliary enterprises	962,800	962,800	-
Total expenses	<u>\$ 50,303,500</u>	<u>\$ 50,303,500</u>	<u>\$ -</u>

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(13) Endowment Funds

General

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

	As of June 30, 2014			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 76,482,400	\$ -	\$ 42,212,200	\$ 34,270,200
Board-designated	189,600	189,600	-	-
	\$ 76,672,000	\$ 189,600	\$ 42,212,200	\$ 34,270,200
	As of June 30, 2013			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted	\$ 61,739,500	\$ (1,982,500)	\$ 32,951,800	\$ 30,770,200
Board-designated	134,000	134,000	-	-
	\$ 61,873,500	\$ (1,848,500)	\$ 32,951,800	\$ 30,770,200

The changes in endowment net assets for the years ended June 30, 2014 is as follows:

	2014			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2013	\$ 61,873,500	\$ (1,848,500)	\$ 32,951,800	\$ 30,770,200
Board-designated endowments	55,600	55,600	-	-
Contributions	7,425,000	-	4,925,000	2,500,000
Transfer from unendowed	1,000,000	-	-	1,000,000
Appropriations	(2,360,000)	-	(2,360,000)	-
Investment income, net	1,689,300	-	1,689,300	-
Investment appreciation, net	6,988,600	1,982,500	5,006,100	-
June 30, 2014	\$ 76,672,000	\$ 189,600	\$ 42,212,200	\$ 34,270,200

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**Notes to the Financial Statements (continued)
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(13) Endowment Funds (continued)

General (continued)

The changes in endowment net assets for the years ended June 30, 2013 is as follows:

	2013			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2012	\$ 51,327,300	\$ (5,770,600)	\$ 26,327,700	\$ 30,770,200
Board-designated endowments	100,000	100,000	-	-
Contributions	5,000,000	-	5,000,000	-
Appropriations	(2,160,000)	-	(2,160,000)	-
Investment income, net	1,078,300	-	1,078,300	-
Investment appreciation, net	6,527,900	3,822,100	2,705,800	-
June 30, 2013	<u>\$ 61,873,500</u>	<u>\$ (1,848,500)</u>	<u>\$ 32,951,800</u>	<u>\$ 30,770,200</u>

A description of amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets:		
Portion of perpetual endowment funds required to be retained permanently by either explicit donor stipulation or law	<u>\$ 34,270,200</u>	<u>\$ 30,770,200</u>
Total permanently restricted net assets	<u>\$ 34,270,200</u>	<u>\$ 30,770,200</u>
Temporarily restricted net assets:		
Endowments:		
Portion of term endowment funds subject to time restriction(s)	<u>\$ 34,675,000</u>	<u>\$ 30,000,000</u>
Portion of perpetual endowment funds subject to time or purpose restriction(s)	<u>7,537,200</u>	<u>2,951,800</u>
	<u>42,212,200</u>	<u>32,951,800</u>
Other	<u>3,815,200</u>	<u>4,666,600</u>
Total temporarily restricted net assets	<u>\$ 46,027,400</u>	<u>\$ 37,618,400</u>

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(13) Endowment Funds (continued)

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.

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 \$0 and \$1,848,500 as of June 30, 2014 and 2013, 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 objective of the endowment is to earn an average annualized total rerun of at least 5% per year over the long term, net of cost.

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Notes to the Financial Statements (continued)
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(13) Endowment Funds (continued)

Return Objectives and Risk Parameters (continued)

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% of the endowment principal invested for both the years ended June 30, 2014 and 2013. In accordance with this policy, the University's Board of Trustees authorized spending of approximately \$2,360,000 and \$2,160,000 for the years ended June 30, 2014 and 2013, respectively.

Permanently Restricted Net Assets

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

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

During 2013, the University received \$1,000,000 of temporary restricted funds; however the donor did not provide the University with a detailed purpose for the funds. During 2014, the donor requested the University to permanently restrict the corpus of the donation in an endowment fund. Therefore, the University transferred the funds from temporary restricted un-endowed funds to permanently restricted endowment funds.

In addition, the University had other permanently restricted endowments of approximately \$4,270,200 and \$1,770,200 as of June 30, 2014 and 2013, respectively; the earnings of which are available for various restricted and unrestricted purposes, as permitted by law.

Term Endowments

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

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(13) Endowment Funds (continued)

Term Endowments (continued)

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 each of the years ended June 30, 2012 and 2013, and received \$4,675,000 during the year ended June 30, 2014. The decrease in the current year was due to a government budget cut, or sequester, of 6.5% (\$325,000). The corpus of such awards is to be invested for a period of 20 years, after which such amount will be available for expenditure. During the grant period (20 years commencing on the date of each award) investment income on these funds are used to build the University's research infrastructure and capacity, but may not be used to directly support research itself. In addition, the University also had other term endowments of approximately \$7,537,200 and \$2,951,800 as of June 30, 2014 and 2013, respectively.

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

Single Audit Report
(with Independent Auditors' Reports Thereon)

June 30, 2014

Independent Auditors' 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, 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, the financial statements of Charles R. Drew University of Medicine and Science (the "University"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in item F-2014-01 in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Independent Auditors' 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)

University's Response to Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haskell & White LLP

HASKELL & WHITE LLP

November 13, 2014
Irvine, California

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Charles R. Drew University of Medicine and Science's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133
(continued)**

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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-2014-02 through F-2014-06. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs.

The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items F-2014-02 through F-2014-05, that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs.

The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133
(continued)**

Report on Internal Control over Compliance (continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University as of and for the year ended June 30, 2014, and have issued our report thereon dated November 13, 2014, which contained an unmodified 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, 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.

Haskell & White LLP

HASKELL & WHITE LLP

November 13, 2014
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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
Research and Development Cluster:			
U.S. Department of Defense:			
Prevention of HIV in the Jamaican Military	12.350	N00244-08-1-0084	\$ 96,985
Prevention of HIV in the Belizean Military	12.350	N00244-10-1-0014	106,083
HIV Treatment for Rwanda Defense Force	12.350	N00244-10-1-0046	626,514
HIV Treatment for Rwanda Defense Force	12.350	N00244-10-1-0015	1,196,522
HIV Prevention in the Angolan Military	12.350	N00244-10-1-0008	23,380
HIV Prevention in the Angolan Military	12.350	N00244-13-1-0035	1,630,787
Subtotal CFDA No. 12.350			3,680,271
Subtotal U.S. Department of Defense			3,680,271
U.S. Department of Health and Human Services:			
National Institutes of Health			
Passed through University of Southern California			
HJ Mile HIV Prevention Intervention-Post-Incarcerated African American Men	93.941	5-UR6-PS001098-03	817
HJ Mile HIV Prevention Intervention-Post-Incarcerated African American Men	93.941	5-UR6-PS001098-05	4,732
Subtotal CFDA No. 93.941			5,549
Passed through California State University, Los Angeles			
Personality Disorders, Decision Making & Sexual Risk Behaviors	93.242	1SC1MH093181-01a1	51,775
Subtotal CFDA No. 93.242			51,775
Minority Institutions Drug Abuse Research Development Program	93.279	3R24DA017298	120,084
DIDARP-CDU Diversity-Promotg Drug Abuse Prgm	93.279	3R24DA017298-08	84,448
Subtotal CFDA No. 93.279			204,532

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
A Community Collaborative Effort to Reduce the Burden of Heart Disease in a Safe	93.307	1R24MD007991-1	192,168
Mentored Postdoctoral Training in Health Disparities	93.307	1R25MD007610	635,175
Project Export	93.307	2P20MD000182C	1,462,585
National Center Research Recourse Research and Education Advancement Center/Health	93.307	1P50RR1717401	4,000,000
Office of Academic Computing	93.307	1S21MD00235	15,000,000
Medical Science Institute Endowment	93.307	2S21MD00010305	10,000,000
Medical Science Institute Temporary Endowment	93.307	5S21MD00010307	15,000,000
Medical Science Institute Endowment	93.307	5S21MD00010310	5,000,000
Sustaining Faculty Development & Community Engagement	93.307	5S21MD00010311	14,675,000
NIH Endowment Interest Earned			1,999,278
Accelerating Excellence in Translational Sci(Axis)	93.307	5U54RR02613802	3,673,897
Research Center Minority Institute-Translational Research Network	93.307	5U54MD008149	4,474,713
Subtotal CFDA No. 93.307			76,112,816
Passed through University of California Los Angeles:			
CTSI:An innovative Program to Deliver Obesity Services at DHS Facilities	93.350	1790 B RA035	18,003
CTSI:Conceptualizig TRUST-Public Trust in Research	93.350	1790 B RA035	3,953
CTSI:Sensitization of Castration-Resistant Prostate Tumors to Docetaxel Treatment of Green Tea and Quercetin	93.350	1790 G RA032	125,331
CTSI:Exploring Social Supprt of Gay Men in Sobriety	93.350	1557GQB230	3,571
Subtotal CFDA No. 93.350			150,858
Passed through University of California Los Angeles:			
Clinical & Translational Science Institute	93.389		745,679
CTSI:Effects of Varenicline on Alcohol & Nicotine	93.389	1KL2RR033185	109,665
Subtotal CFDA No. 93.389			855,344

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
Passed through University of California Davis:			
AANCART--Nat. Center Reducing Asian American Cancer Health Disparities	93.397	200912673-09	104,301
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	1U54CA143931-01	<u>2,244,399</u>
Subtotal CFDA No. 93.397			<u>2,348,700</u>
Role of H6PDH in Type 2	93.847	1SC1 DK08765501	275,862
Conference on Kidney Disease - Disadvantaged Populations	93.847	1R13DK098961-01	<u>9,000</u>
Subtotal CFDA No. 93.847			<u>284,862</u>
Myostatin Regulation of Skeletal Muscle Energy Metabolism	93.859	1-SC1-GM089648-01A1	257,191
Passed through University of California Los Angeles:			
UCLA/CDU Partnership for Enhancing Diversity-Nurses	93.859	1900 G QA775	<u>190,615</u>
Subtotal CFDA No. 93.859			<u>447,806</u>
Role of Follistatin During Androgen Regulation	93.866	1SC1AG03340701A1	<u>58,031</u>
Subtotal CFDA No. 93.866			<u>58,031</u>
Passed through University of California Los Angeles:			
CHIME:Differences in Family Support-Alcohol Recovery	93.886	1557GQB235	<u>2,814</u>
Subtotal CFDA No. 93.886			<u>2,814</u>
Health Resources and Services Administration:			
Passed through University of Southern California:			
AIDS Regional Education and Training Center	93.145	2948SC	<u>195,880</u>
Subtotal CFDA No. 93.145			<u>195,880</u>

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
Office of Minority Health:			
Drew National High School Student Summer Research Apprentice Program (STEP-UP)	93.847	5R25DK078384	33,711
Drew National High School Student Summer Research Apprentice Program (STEP-UP)	93.847	5R25DK078384	<u>137,244</u>
Subtotal CFDA No. 93.847			<u>170,956</u>
Centers for Medicare and Medicaid Services:			
Ryan White Title III Outpatient EIS Program	93.918	3H76HA02163CO	221,636
Ryan White Title III Outpatient EIS Program	93.918	2H76HA0216300	<u>55,216</u>
Subtotal CFDA No. 93.918			<u>276,852</u>
NIH/National Cancer Institute			
Targeting Perk 1/2 in Human Mammary Cancer Stem Cells	93.396	1SC1CA165865-01A1	<u>249,820</u>
Subtotal CFDA No. 93.396			<u>249,820</u>
Sutotal U.S. Department of Health and Human Services			<u>81,416,595</u>
Total Research and Development Cluster			<u>85,096,866</u>
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A05191	<u>24,700</u>
Subtotal CFDA No. 84.007			<u>24,700</u>
William D. Ford Federal Direct Loan Program	84.268	PK268143329	<u>15,101,657</u>
Subtotal CFDA No. 84.268			<u>15,101,657</u>
Federal Perkins Loan Fund	84.038	P037YO75191	<u>5,214</u>
Subtotal CFDA No. 84.038			<u>5,214</u>

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
Federal Work-Study Program	84.033	P033A05191	<u>104,217</u>
Subtotal CFDA No. 84.033			<u>104,217</u>
Federal Pell Grant Program	84.063	P063P50645	<u>205,623</u>
Subtotal CFDA No. 84.063			<u>205,623</u>
Subtotal U.S. Department of Education			<u>15,441,411</u>
U.S. Department of Health and Human Services:			
Health Resources and Services Administration			
Nurse Faculty Loan Program	93.264	E01HP25828	<u>230,000</u>
Subtotal CFDA No. 93.264			<u>230,000</u>
Subtotal U.S. Department of Health and Human Services			<u>230,000</u>
Total Student Financial Aid Cluster			<u>15,671,411</u>
Other Programs:			
U.S. Department of Agriculture:			
CDU Farmer's Market	10.168	2-25-G-1531	<u>13,769</u>
Subtotal CFDA No. 10.168			<u>13,769</u>
Subtotal U.S. Department of Agriculture			<u>13,769</u>
U.S. Department of Education:			
Historically Black Colleges and Universities	84.031B	P031B070062	<u>2,310,976</u>
Subtotal CFDA No. 84.031B			<u>2,310,976</u>

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-through Entity or Other Identifying Number	Federal Expenditures
CDU College Bound Prep Plus-Inst Project	84.120A	P120A090069	104,692
Increasing STEM Success - At-Risk & Foster Youth	84.120A	P120A110091	310,524
Subtotal CFDA No. 84.120A			415,216
Subtotal U.S. Department of Education			2,726,192
U.S. Department of Health and Human Services:			
Nitric Oxide/cGMP Modulation of Corporal Fibrosis	93.853	1SC1NS064611-02	168,486
Estrogen Receptors and Nociceptive Signalling-Primary	93.853	1SC1NS063939-01	14,057
Subtotal CFDA No. 93.853			182,543
Passed through University of California Los Angeles:			
Drew/UCLA Connect Community Partnered Resources	93.879	4001577	19,888
Bridging-Hlth Info Gap: SSA II & CDU Hlth Sci Lib		5415-PQA007	8,245
Passed through Center for Disease Control:			
Title IV of the Intergovernmental Personnel Act of 1970	93.879	12IPA1203036	24,761
Subtotal CFDA No. 93.879			52,894
Passed through University of California Los Angeles:			
Bridging-Hlth Info Gap: SSA II & CDU Hlth Sci Lib	None Provided	5415-PNA580	5,756
Subtotal CFDA No. None Provided			5,756
Subtotal U.S. Department of Health and Human Services			241,193
Total Other Programs			2,981,154
Total Expenditures of Federal Awards			\$ 103,749,431

See accompanying notes to schedule of expenditures of federal awards and report on compliance for each major program and on internal control over compliance required by 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, 2014

(1) General

The accompanying schedule of expenditures of federal awards ("Schedule") includes the activity for all federal award programs of Charles R. Drew University of Medicine and Science (the "University" or "CDU") for the year ended June 30, 2014. 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 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, 2014.

(4) Administrative Cost Allowances

Administrative cost allowances claimed for the year ended June 30, 2014 were as follows:

Federal Supplemental Educational Opportunity Program	\$	1,235
Federal Work-study Program		-
	<u>\$</u>	<u>1,235</u>

(5) Indirect Costs from Federal Grants

For the year ended June 30, 2014, the University had approved predetermined fixed indirect cost rates for grants, contracts and other agreements with the federal government as follows:

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

Total indirect costs for the year ended June 30, 2014 were \$2,787,469.

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, 2014

(6) Subrecipients

Federal awards paid to subrecipients during the year ended June 30, 2014 were as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Prevention of HIV in the Jamaican Military	12.350	\$ 64,929
Prevention of HIV in the Belizean Military	12.350	58,413
HIV Treatment for Rwanda Defense Force	12.350	1,599,202
HIV Prevention in the Angolan Military	12.350	1,292,917
NIH Endowment	93.307	14,242
A Community Collaborative Effort to Reduce the Burden of Heart Disease in a Safe	93.307	63,769
Research Center Minority Institute-Translational Research Network	93.307	3,666,682
Accelerating Excellence in Translational Science	93.307	23,390
Project Export	93.307	620,263
UCLA Cancer Center Partnership to Eliminate Cancer	93.397	382,301
Passed through UCD: AANCART--Nat. Center Reducing Asian American Cancer Health Disparities	93.397	869
		<u>\$ 7,786,977</u>

(7) Endowment Award

The accompanying Schedule includes \$65,674,278 in grants which consist of \$63,675,000 in corpus and \$1,999,278 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 \$4,675,000 which was received during the year ended June 30, 2014. Of the \$63,675,000 corpus, \$29,000,000 is to be maintained in perpetuity and the investment income will be used to support: (1) the construction of a learning conference center, computer classroom and two new seminar rooms; (2) faculty and professional development, including creation of a faculty Research and Teaching Resource Center, and a comprehensive instructional program for faculty that will optimize the effectiveness of faculty as research mentors; and (3) enhancement of the University's research infrastructure through modernization of the existing learning resource center for students. The remaining \$34,675,000 consists of term endowment funds, which allow for the use of the corpus 20 years after the end of the grant period. The investment income on these term endowment funds will be used to build the University's research infrastructure and capacity, but may not be used to directly support the research itself.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
(California Not-for-Profit Corporation)
Schedule of Findings and Questioned Costs
Year ended June 30, 2014**

(1) Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

Material weaknesses identified? Yes No

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

Noncompliance material to the financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes No

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

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

<u>Program Name</u>	<u>CFDA Number</u>	<u>Opinion</u>
Research and Development Cluster	Various	Unmodified
Student Financial Assistance Cluster	Various	Unmodified

Other items:

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

Dollar threshold used to distinguish between type A and type B programs: **\$3,112,483**

Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133? Yes 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, 2014

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

Finding F-2014-01 – Financial Statement Close Process

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 audit, we noted that the University did not properly or timely reconcile several of their accounts as part of the financial close process, which resulted in a number of financial statement adjustments.

Recommendation

We noted that management had made some improvements in this area during the year, but additional new controls are needed to completely correct this. We recommend that management continues to develop the accounting department and ensure there are sufficient personnel with appropriate experience and knowledge of U.S. generally accepted accounting principles (“GAAP”) in order to perform timely and accurate reconciliations as a part of the financial statement close process.

Views of Responsible Officials

The University continues to refine and implement new procedures to improve the financial statement close process. The University’s Finance department continues to invest in its employees by requiring on-going training for all employees.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014**

(3) Findings and Questioned Costs Relating to Federal Awards

Research and Development Cluster:

Finding F-2014-02 – Allowable Costs – Payroll Expenditures

Federal Catalog Number: 12.350; 93.279; 93.307; 93.307

Federal Program Name: HIV Treatment for Rwanda Defense Force; Minority Institutions Drug Abuse Research Development Program; Sustaining Faculty Development & Community Engagement; Research Centers in Minority Institutions Program Translational Research Network

Federal Agency: Department of Defense; National Institute on Drug Abuse; National Institute of Minority Health and Health Disparities (NIMHD); National Institute of Minority Health and Health Disparities (NIMHD)

Pass-Through Entity None

Federal Award Number and Award Year: N00244-10-1-0046 May 18, 2010 to October 30, 2013, N00244-14-1-0015 December 31, 2013 to December 30, 2014; 3R24DA017298-07 June 1, 2012 to April 14, 2014, 3R24DA017298-07S2 June 1, 2012 to May 31, 2014; 5S21MD000103-12 September 4, 2012 to August 31, 2013, 5S21MD000103-13 September 4, 2013 to August 31, 2014; 5U54MD008149-07 July 1, 2013 to June 30, 2014

Criteria

TITLE 2 - GRANTS AND AGREEMENTS, CHAPTER - 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

(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.

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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Research and Development Cluster (continued):

Finding F-2014-02 – Allowable Costs – Payroll Expenditures (continued):

- (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 38 employee assignments to grants which encompassed 612 employee pay periods 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:

1. Payroll charges for four (4) employees were incorrectly allocated to various programs without approval.
2. Sixteen (16) improper allocations were made due to adjustments for retroactive PAFs or other miscalculations.
3. Seventeen (16) instances where amounts paid to employees were not consistent with the approved PAF rates.

The above noted deficiencies appear to be due to the fact that PAFs are manually entered into the Great Plains accounting system without sufficient review to ensure the data was entered correctly, which resulted in reconciling differences between the payroll charges to program expenditures and PAFs.

Questioned Costs

Not determined

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Research and Development Cluster (continued):

Finding F-2014-02 – Allowable Costs – Payroll Expenditures (continued):

Recommendation

We recommend that the University improve and strengthen its existing policies and procedures surrounding Personnel Action Forms and reconciliations, including expediting the PAFs approval process, in order to ensure more timely and accurate payroll.

Views of Responsible Officials

The University has implemented new procedures during the year that improved the payroll processes. The University created a new position that is responsible for reviewing the Electronic Personnel Action Form (EPAF) data entry and this position was hired in February 2014. There were no exceptions noted during the fourth quarter of the fiscal year. Additionally, the University hired a payroll manager on October 6, 2014. Below are specific items for the conditions noted above:

1 and 2. The Departments of Finance and Payroll will coordinate efforts to identify retroactive allocation discrepancies (i.e., retroactive adjustments, miscalculations, appropriate approvals, data entry errors, etc.). Both departments will develop a process between the Electronic Personnel Action Form System (EPAFS) and the Great Plains (GP) General Ledger Report to identify comparisons and inconsistencies between the two systems. The purpose will be to notate any discrepancies, which in turn, will produce an exceptions report. The exceptions report will trigger both departments to transact retroactive allocations properly, timely, and accurately. The Departments of Finance and Payroll staff will properly allocate retroactive payments in the Employee Activities Maintenance (EAM) screen of GP when processing retroactive payments.

3. The EPAF/GP Data Entry Review Process was recently deployed in March 2014 by the Department of Human Resources based on the prior year's audit recommendation. A part-time HR Coordinator was hired to review EPAF and GP Data entries. The deployment of the review process clearly indicates a positive change. The last 6 months of the current fiscal year audit period revealed a significant decrease overall and no errors in the last 3 months of the fiscal year. HR staff will properly data enter EPAF transactions and continue to review and enforce its recently deployed EPAF/GP Data Entry Review Process to ensure data entries are accurate.

**CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE
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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014**

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

Research and Development Cluster (continued):

Finding F-2014-03 – Subrecipient Monitoring – Review of Subrecipient A-133 Report

Federal Program Information

Federal Catalog Number: 93.307

Federal Program Name: Research Centers in Minority Institutions Program Translational Research Network

Federal Agency: National Institute of Minority Health and Health Disparities (NIMHD)

Pass-Through Entity None

Federal Award Number and Award Year: 5U54MD008149-07 July 1, 2013 to June 30, 2014

Criteria

TITLE 29 - LABOR; SUBTITLE A – OFFICE OF THE SECRETARY OF LABOR; PART 99 – AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS; Subpart D--Federal Agencies and Pass-Through Entities, §____.400 Responsibilities.

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Condition, Cause and Effect

In our procedures performed over subrecipient monitoring, we selected four (4) subrecipients from the selected programs and reviewed the documentation prepared by the University in accordance with the above provisions. Of these selections, it was noted in two (2) instances where a lack of documentation was maintained related to analysis performed by management in regards to their subrecipients' audit findings which included significant deficiencies and material weaknesses over internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that management better utilize the forms and controls in place while maintaining stronger evidence of review and analysis of their subrecipients' A-133 audit findings.

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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Research and Development Cluster (continued):

Finding F-2014-03 – Subrecipient Monitoring – Review of Subrecipient A133 Reporting (continued)

Views of Responsible Officials

The University has a subrecipient monitoring form that is used for all new and existing subrecipient agreements. The Office of Sponsored Programs and Finance are implementing improvements to the monitoring process of subrecipients.

Student Financial Aid Cluster:

Finding F-2014-04 – Special Tests and Provisions – Return of Title IV

Federal Program Information:

Federal Catalog Number: 84.268
Federal Program Name: William D. Ford Federal Direct Loan Program
Federal Agency: U.S. Department of Education
Pass-Through Entity None
Federal Award Number and Award Year: P268K143329; July 1, 2013 to June 30, 2014

Criteria

TITLE 34 – EDUCATION; SUBTITLE B – REGULATIONS OF THE OFFICES OF THE DEPARTMENT OF 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.

(b) *Timely return of title IV, HEA program funds.* In accordance with procedures established by the Secretary or FFEL Program lender, an institution returns unearned title IV, HEA program funds timely if—

- (1) The institution deposits or transfers the funds into the bank account it maintains under § 668.163 no later than 45 days after the date it determines that the student withdrew;
- (2) The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
- (3) The institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or

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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Student Financial Aid Cluster (continued):

Finding F-2014-04 – Special Tests and Provisions – Return of Title IV (continued)

(4) The institution issues a check no later than 45 days after the date it determines that the student withdrew. An institution does not satisfy this requirement if—

(i) The institution's records show that the check was issued more than 45 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 FFEL Program lender endorsed that check more than 60 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 twelve (12) students who were determined to have withdrawn, dropped out, or never began attendance during the school year ending the summer of 2014. The R2T4 form, which is available online, automatically computes, among other things, the amount earned and the amount to be refunded by the University 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 noted that the University failed to monitor and determine the dropping out of three (3) students in a timely manner. In one instance, the student gave notice of taking a leave of absence, however this change was not timely communicated to the financial aid and/or the finance departments. For the other two instances, the University did not have sufficient procedures in place to determine students' class completion status.

As a result of our testing, the University completed R2T4s for each of the above three (3) students and subsequently returned funds totaling \$13,544 which ranged between approximately 150 to 500 days late.

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 with existing regulations related to return of Title IV funds.

Views of Responsible Officials and Planned Corrective Actions

In January 2014, the University completed a full review of the fiscal year 2013 return of Title IV. As a result of this review, the University implemented new procedures to insure the accurate and timely processing of return of Title IV funds. The exception noted in the current year audit occurred prior to the change of procedures in January of 2014.

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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Student Financial Assistance Cluster (continued):

Finding F-2014-05 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation, Submission of Enrollment Reporting Roster File

Federal Program Information

Federal Catalog Number: 84.268
Federal Program Name: William D. Ford Federal Direct Loan Program
Federal Agency: U.S. Department of Education
Pass-Through Entity: None
Federal Award Number and Award Year: P268K143329; July 1, 2013 to June 30, 2014

Criteria or Specific Compliance

OMB A-133 COMPLIANCE SUPPLEMENT, Part 5, Clusters of Programs, Criteria N.

5. Enrollment Reporting

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED [Department of Education]. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. As explained in the NSLDS Enrollment Reporting Guide, the Enrollment Reporting roster file is due within 30 days from the creation of the file that is placed in the institution's SAIG (Pell, 34 CFR section 690.83(b)(2); FFEL, 34 CFR section 682.610; *Direct Loan*, 34 CFR section 685.309).

8. Borrower Data Transmission and Reconciliation (Direct Loan)

Compliance Requirement – Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the 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).

Condition, Cause and Effect

Per our review of the National Student Loan Data System ("NSLDS") Enrollment Reporting Summary Report provided by the University, we noted the following:

- The November 2013 report was not submitted until December 2, 2013 which was one (1) day after the 30-days due date.
- The January 2014 report was not submitted on a timely basis and was instead reported with the February 2014 report, which are past the 30-days due date.
- The May, June, and July 2014 reports were not submitted on a timely basis and were not submitted until August 18, 2014, which are past the 30-days due date.

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Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2014

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

Student Financial Assistance Cluster (continued):

Finding F-2014-05 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation, Submission of Enrollment Reporting Roster File (continued)

Questioned Costs

Not Applicable.

Recommendation

We recommend the University establish controls to monitor the timely submission of the NSLDS report to ensure that it is completed and submitted on a timely basis.

Views of Responsible Officials and Planned Corrective Actions

The University hired a new Director of Student Financial Aid in July 2014 and the reporting was brought current in August 2014. Under the direction of the new Director of Student Financial Aid this report will be submitted timely.

Finding F-2014-06 – Eligibility – Enrollment in Sufficient Units to Receive Financial Aid

Federal Program Information:

Federal Catalog Number: 84.268
Federal Program Name: William D. Ford Federal Direct Loan Program
Federal Agency: U.S. Department of Education
Pass-Through Entity None
Federal Award Number and Award Year: P268K143329; July 1, 2013 to June 30, 2014

Criteria

TITLE 34 – EDUCATION; SUBTITLE B – REGULATIONS OF THE OFFICES OF THE DEPARTMENT OF EDUCATION; CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION; PART 685 WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM; Subpart B – Borrower Provisions; Section 668.32 – Student Eligibility.

A student is eligible to receive Title IV, HEA program assistance if the student either meets all of the requirements in paragraphs (a) through (m) of this section or meets the requirement in paragraph (n) of this section as follows:

(a)(2) For purposes of the ACG, National SMART Grant, FFEL, and Direct Loan programs, is at least a half-time student.

Condition, Cause and Effect

In our procedures performed to determine if students were eligible to receive Direct Loan Program funds, we reviewed a sample of sixty-three (63) students who had received Direct Loan Program funds in the Fall and Spring semesters. We noted two (2) students were not enrolled in the required six (6) units to be considered part-time students and thus did not qualify for the Direct Loan Program.

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Year ended June 30, 2014

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

Finding F-2014-06 – Eligibility – Enrollment in Sufficient Units to Receive Financial Aid (continued)

Condition, Cause and Effect (continued)

As a result of our testing, the University returned funds totaling \$14,844 to Title IV for the above two (2) students.

Questioned Costs

Not determinable.

Recommendation

We recommend the University implement a policy to review each student's number of units enrollment prior to applying Direct Loan Program funds to ensure the student has enrolled in sufficient units.

Views of Responsible Officials

Financial Aid will continue verifying student eligibility with the Registrar's Office before processing disbursements with Common Origination & Disbursement system and the Finance Department.

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Summary Schedule of Prior Audit Findings
Year ended June 30, 2014

Comments originating in the Years Ended June 30, 2013 and 2012:

Findings Relating to the Financial Statements

FS-2013-01 Take steps to ensure the accounting department has sufficient personnel with appropriate experience and knowledge of U.S. generally accepted accounting principles ("GAAP") in order to perform timely and accurate reconciliations as a part of the financial statement close process.

Status: Partially implemented.

Corrective actions: Please see finding F-2014-01

FS-2013-02 Take steps to enhance policies and procedures over grants to ensure that they are recorded in accordance with GAAP and that any restrictions on those grants are being properly reviewed to determine if restrictions on the grant are being fully met.

Status: Partially implemented.

Corrective actions: The University will continue to strengthen its processes to ensure accurate and timely recording of private grants and contracts.

Findings Related to Federal Awards

F-2012-03 &
F-2013-03 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: Partially implemented

Corrective actions: Please see finding F-2014-04

F-2013-01 Take steps to implement stronger controls around the reporting requirements of grants and better track all incoming communications from grantors to ensure that all reports and other requirements are issued timely and accurately.

Status: Partially implemented

Corrective actions: The University implemented new procedures and all progress reports and FSR's were submitted timely during Fiscal Year 2014. The University is working to implement additional electronic system improvements to enhance the tracking of grant requirements.

F-2013-02 Take steps to implement procedures to ensure that all new regulations and grant agreement requirements are implemented in a timely manner by adding further formal review of incoming Notice of Awards and updates to regulations.

Status: Corrected

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Summary Schedule of Prior Audit Findings (continued)
Year ended June 30, 2014

Comments originating in the Years Ended June 30, 2013 and 2012 (continued)

Findings Related to Federal Awards (continued)

F-2013-04 Take steps to properly reconcile the School Account Statement (SAS) data file to the University's financial records monthly and maintain proper records of all related documentation. We also recommend the University establish a secondary review of the NSLDS report to ensure that it is completed and submitted on a timely basis.

Status: Partially corrected.

Corrective actions: Please see finding F-2014-05