



CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE

OFFICE OF THE PROVOST

February 13, 2014

Christopher N. Oberg, PhD
Vice President and CDU Liaison
Western Association of Schools and Colleges
Accrediting Commission for Senior Colleges and Universities
985 Atlantic Avenue, Suite 100
Alameda, CA 94501

Dear Dr. Oberg:

The following report summarizes the financial progress of Charles R. Drew University of Medicine and Science (CDU) since its spring 2013 Interim Report to WASC. As requested in the WASC Action Letter of June 17, 2013 (Pp. 3-4), this Progress Report focuses on financial personnel and financial performance outcomes (items A.-G.), and also provides a brief update on plans for recruitment of a permanent CDU Provost (item H.).

A. A report on the progress to “get out from under” the current swap agreement on long term debt, with discussion of what the annual costs may be and the source of funding for those costs. The panel notes that CDU has taken significant steps to achieve this result.

The swap agreement remains volatile as its valuation is based on the net present value of future payments. The change in the valuation is a non-cash activity; however, this change is recorded in the financial statement of activity for the University. The valuation has fluctuated from \$4 million to \$11 million in the past three years. In FY2012, the University recorded a valuation loss of approximately \$4 million, and in FY2013 CDU recorded a valuation gain of approximately \$4 million (see Financial Summary in section C below). Through six months of FY2014, CDU has recorded a valuation gain of \$602,000 and forecasts that amount for the full year as well.

In FY2012, the Department of Education (DOE) composite score for the University was 1.6 (on a range from -1.0 to 3.0), primarily due to the impact of the \$4 million valuation loss on the swap agreement. Conversely in FY2013, the DOE composite score was 3.0 (at the maximum), due to the favorable impact of the change in swap valuation and the strong investment returns that strengthened the balance sheet of the University.

Due to the unpredictable nature of the swap valuation and its impact on the DOE composite score, CDU management wants to refinance the long-term debt of the University and eliminate the swap agreement. At present the University's long-term debt service is approximately \$2 million per year. The forecast for FY2014 has two major fees: a) bond interest of approximately \$288,000 based on a variable interest rate of less than 1%; and b) swap payments of \$1,124,682. The majority of the debt service payments is for the swap agreement due to historically low interest rates. The debt service is funded from unrestricted sources of revenue.

	Actual FY 2012	Actual FY 2013	Forecast FY 2014	%
Bond Interest	\$ 191,750	\$ 371,904	\$288,126	15%
Swap Fee	1,125,121	1,124,399	1,124,682	59%
LOC Fee	448,984	429,413	408,750	21%
Other Fees	103,225	144,117	91,486	5%
Total Debt Service	\$ 1,869,080	\$ 2,069,833	\$ 1,913,044	100%

CDU has engaged a financial consulting firm, Public Financial Management (PFM), to assist in refinancing the University's long-term debt. The University conducted an open request for proposal (RFP) process. After the open RFP was disseminated, ten financial institutions attended a follow-up informational meeting and subsequently the University received one comprehensive proposal, a joint proposal from two financial institutions. The University is current evaluating this proposal. The goal of the refinancing effort is to convert the current variable rate bonds to a fixed rate debt instrument and to eliminate the interest rate swap agreement altogether.

The University is also working closely on this refinancing project with The California Endowment, a private statewide health foundation dedicated to expanding access and affordability of quality healthcare to underserved communities.

B. An update on changes in key financial personnel and financial administrative structure, if any.

In June 2013, the Chief Budget and Planning Officer resigned. On September 16, 2013, a new Chief Budget and Planning Officer was hired. No other changes have taken place in CDU's key financial personnel, and the financial administrative structure of the University remains unchanged since the spring 2013 Interim Report.

C. A report on the updated Financial Sustainability Plan, including all sources of funds and type of expenditures, and its integration with other budgeting and planning activities within the institution, especially in relation to an overall strategic plan for the University.

Overview – The leadership of CDU is committed to maintaining financial sustainability, and to meeting that objective in an environment of financial transparency, financial accountability, and fiscal responsibility at all levels of the organization.

The primary objectives of the budget planning and monitoring process are to: (1) provide timely, accurate, accessible, and relevant financial information through an integrated data infrastructure; and (2) engage the full range of CDU stakeholders through an inclusive and organized budget development process.

Budget and funding plans and initiatives are aligned with the goals of the University’s Strategic Plan, adopted by the Board of Trustees in August 2013. The strategic plan is organized around the following six goals:

- | | |
|-----------------------------|-----------------------------|
| 1. Academic Excellence | 4. Financial Sustainability |
| 2. Student Success | 5. Clinical Service |
| 3. Institutional Excellence | 6. Community Partnership |

CDU’s budget processes and fiscal plans are based on the premise that only tuition, fees, and other consistently predictable or reliable annual revenue sources should support planned academic and business operations. In that way, the University is appropriately driven by resources that can be counted on to support needed operations – and not simply by desirable investments without identifiable or quantifiable support. Academic plans drive the fiscal planning and budgeting process.

Summary of Operating Results and Progress Compared to Prior Years and Current Budgets – A baseline budget and monitoring process was established in FY2013 under the auspices of the new CDU position of Chief Budget and Planning Officer (CBPO). The budget for FY2014 was developed by the CBPO over the course of several months of stakeholder engagement, which involved leadership of each academic and administrative business unit, with appropriate oversight of faculty, staff, executive, and board-level governing bodies.

The University completed FY2013 with a surplus of nearly \$4.7 million from its unrestricted operations – exceeding original budget forecasts by approximately \$4.2 million. The FY2014 budget was prepared with an estimated surplus of \$970,000. An important element that contributes to long-term CDU financial sustainability is to maintain some level of financial reserve; the FY2014 budget incorporates that objective.

The CBPO and other finance officers distribute monthly budget-to-actual reports to leaders of each University business unit, supplemented by additional information or analysis as applicable; the CBPO leads follow-up meetings with leaders as needed to monitor, explain, and make plans to correct adverse variances.

Summary of Operating Results and Financial Position – In its 2013 Interim Report, CDU provided comparative operating, financial, and statistical information for fiscal years 2010, 2011, and 2012 – with similar budget and forecast data for fiscal year to-date 2013 at that time. The information demonstrated the increasing financial strength and stability achieved by the University. The following is a summary with narrative comments on key financial factors, comparing FY2012 and FY2013 outcomes with budgeted or year-to-date forecasted results for the current fiscal year (FY2014).

**Charles R. Drew University of Medicine and Science
Financial Summary -- Combined University (Dollars in Thousands)**

	Actual FY2012	Actual FY2013	Forecast FY2014
Statement of Activities:			
Revenue:			
Tuition and Fees	\$11,002	\$12,574	\$12,200
Federal, State, Local Programs	10,804	11,706	10,000
All Other Revenue	5,784	9,316	3,940
Restricted Revenue	32,840	33,739	33,000
Total Revenue	\$60,430	\$67,335	\$59,140
Expenditures:			
Unrestricted	\$19,548	\$23,776	\$21,380
Restricted	26,817	25,670	28,000
Total Expenditures	\$46,365	\$49,446	\$49,380
Net Before Depreciation & Interest	\$14,065	\$17,889	\$9,760
Depreciation	2,717	3,049	2,572
Interest	1,869	2,070	1,913
Operating Income	\$9,479	\$12,770	\$5,275
Interest Rate Swap Value Gain (Loss)	(3,941)	4,352	602
Net Change	\$5,538	\$17,122	\$5,877

From a baseline amount of \$11 million in FY2012, tuition and fee revenue increased by approximately \$1.6 million or 14.5%, to \$12.6 million in FY2013; and it is forecasted to remain relatively stable at approximately \$12.2 million in FY2014.

The number of student FTE increased from 355 in Fall Semester 2011, to 427 in Fall Semester 2012, and 434 in Fall Semester 2013. The related number of student credit hours increased from 4,836 in Fall Semester 2011, to 5,933 in Fall Semester 2012; and while the total decreased slightly to 5,839 in Fall Semester 2013 due to a change in the mix of student majors/programs, the total has remained relatively stable.

CDU receives annual funding from the State of California—specifically the University of California Regents—to support: (1) the joint MD program operated by the CDU College of Medicine with the UCLA School of Medicine; and (2) health education programs—including clinical, health science education, research, and public service programs—under the auspices of Senate Bill 1026. Funding during the past four fiscal years (2010-2013) has exceeded \$9.5 million; CDU received \$10.8 million in FY2012 and \$11.7 million in FY2013; the budget forecast for FY2014 is conservatively estimated at \$10 million.

Restricted revenues from federal, state, and county agencies, as well as corporations and foundations, have remained consistent and strong. Funds received annually by the University through a Title III Grant from the U.S. Department of Education support specifically designated initiatives across various academic and administrative business units to strengthen and improve financial management and information systems. A total of \$1.9 million received during FY2013 and \$2.1 million budgeted for FY2014 supports personnel costs and operating expenditures in those targeted areas.

FY2013 unrestricted revenue of \$33.6 million exceeded budget by \$8.8 million; allowing accordingly for certain strategic initiatives, with unrestricted expenditures of \$28.9 million exceeding the budget by \$4.1 million. The net operating surplus was \$4.7 million. A surplus of restricted revenues over restricted expenditures – and an unrealized gain on the valuation of the interest rate swap – contributed to an overall FY2013 surplus of \$17.1 million. The forecast for FY2014 is unrestricted revenue of approximately \$26.1 million, unrestricted expenditures of \$25.8 million (including depreciation and interest), and thus an operating surplus of nearly \$300,000. Including restricted revenues and expenditures, the forecasted surplus is nearly \$5.9 million for FY2014.

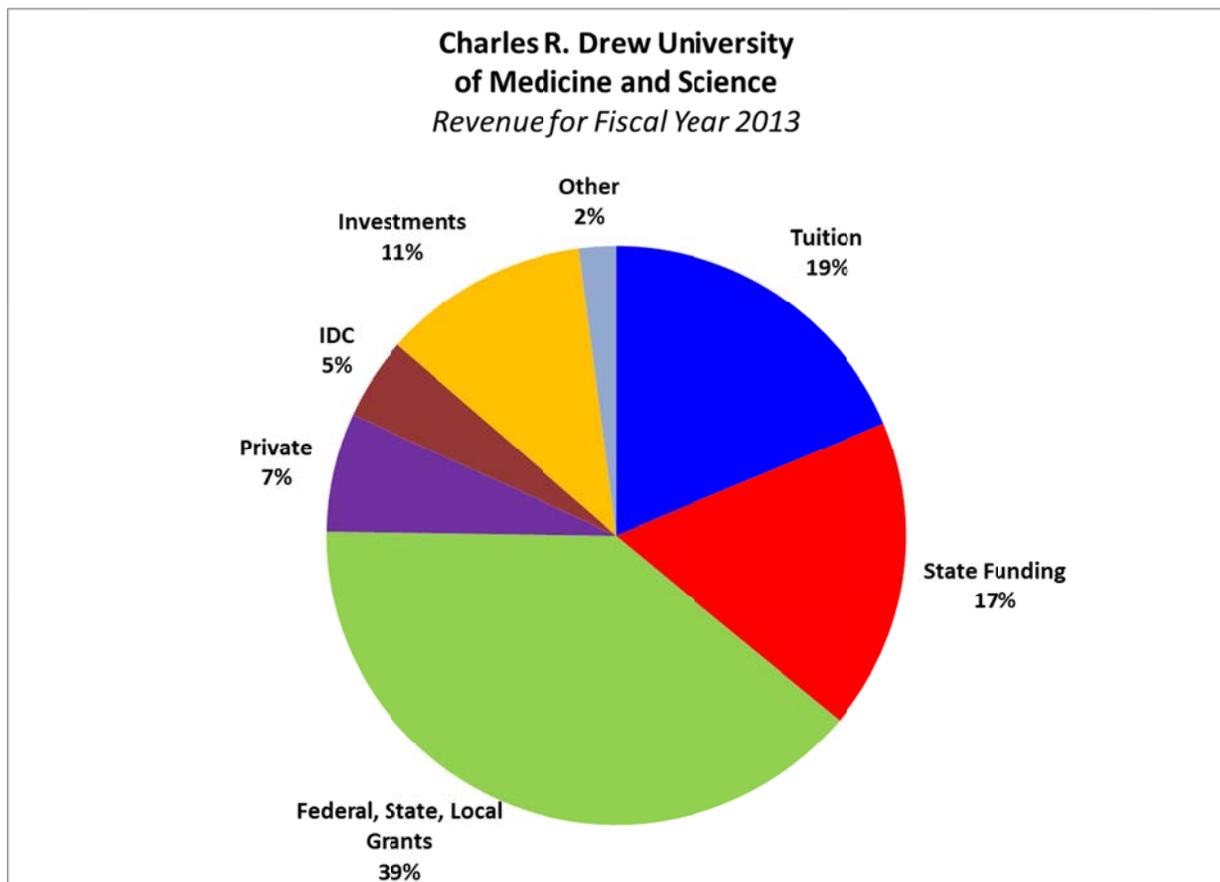
The University's financial position has strengthened steadily since 2011. Unrestricted cash and investments have ranged from \$15.5 million to \$19.1 million during FY2012 through FY2014 – at \$18.6 million on 12/31/2013 – compared to approximately \$5 million at the end of FY2011. Similarly, CDU's restricted cash and investment endowment – from a base of \$50 million at the end of FY2011 – has steadily increased to \$53 million at the end of FY2012, \$64 million at the end of FY2013, and \$72 million as of 12/31/2013. Further, the University continues to reduce long-term debt through annual principal payments.

Finally, CDU passed the U.S. Department of Education financial ratios, at the “compliant” level during FY2011, FY2012, and FY2013; the composite score of 3.0 for FY2013 is at the top of the range.

D. A more detailed breakdown of the inter-relationship between external funding (e.g., Temporarily Restricted Funds, funds for student aid) and general University Unrestricted funds and operations, including how indirect cost recovery funds support the unrestricted budget. Among the items to address in this presentation are:

- i. The relationship between grants and student aid**
- ii. Indirect costs and current operations**
- iii. Flow of UCLA provided support**
- iv. Gross tuition and fees vs. net tuition and fees in the last three years and as forecast for the next two or three years**

Overview of Funding Sources – The following chart and accompanying table summarizes all sources of revenue to the University – restricted and unrestricted – by category, using the most recently completed fiscal year (FY2013) for illustrative purposes.



Revenue (\$000's)	FY2013	
Tuition	\$ 12,574	19%
State Funding	\$ 11,706	17%
Federal, State and Local Grants	\$ 26,380	39%
Private	\$ 4,460	7%
IDC	\$ 3,082	5%
Investments	\$ 7,748	12%
Other	\$ 1,385	2%
Total Revenue	\$ 67,335	100%

- i. **Relationship between grants and student aid** – Restricted government funds include \$100,000 designated for scholarships from the U.S. Department of Education Title III Grant program, which is established for the purpose of strengthening historically black graduate universities. Private donations from foundations and corporations include approximately \$1.5 million in restricted funds for scholarship endowment.
- ii. **Indirect costs and current operations** – A substantial portion of the University’s restricted revenue is from grants or contract awarded by federal, state, and county agencies, as well as private foundations and corporations; revenue is reported as allowable as expenditures are incurred. CDU receives grant and contract awards from numerous sources; the primary federal source is the National Institutes of Health (NIH). Those awards are used to conduct research, and the University is allowed to charge and collect an indirect cost recovery (IDC) from expenditures related to those awards. The current indirect cost recovery rate for organized research is 43.5%, effective through June 30, 2016. For each dollar of direct expenditure on an NIH research grant, the University recovers 43.5 cents, to offset University overhead operating costs in support of those grants. For internal reporting, the IDC is included in restricted expenditures on the applicable grants and in unrestricted revenue to the University.
- iii. **Flow of UCLA provided support** – The University receives annual funding from the State of California via the UC Regents to support the joint MD program operated by the CDU College of Medicine with UCLA, as well as clinical, health science education, research, and public service programs conducted by CDU’s College of Medicine, College of Science and Health, and School of Nursing through Senate Bill 1026. Annual funding has exceeded \$9.5 million for the past four fiscal years (2010-2013), and it amounted to \$11.7 million in FY2013 – reported as unrestricted revenue.

- iv. ***Gross tuition and fees vs. net tuition and fees in the last three years and as forecast for the next two or three years*** – The University does not discount tuition. Administration is evaluating the feasibility of various options to implement tuition discount programs or techniques, where appropriate, to cost-effectively increase student enrollment.
- v. ***Investment income*** – Through endowments received primarily from NIH, the University maintains investments in the UCLA Foundation endowed pool and participates in investment returns proportionately with other participants in the pool. CDU's endowment was \$64 million at the end of FY2013 and is \$72 million as of 12/31/2013. Investment income is secured primarily from that endowment. The University's investment policy is intended to provide for safety of principal through diversification in a portfolio of investments, which may reflect varying rates of return; the objective is to earn an annualized total return of at least 5% per year over the long-term, net of cost. Actual investment income for FY2013 was \$7.7 million – approximately a 15% rate of return; those results are not typical. CDU's spending policy, authorized by the Board of Trustees, allows for spending of 4% of the endowment corpus per year, to support the University's research infrastructure; that amount was \$2.1 million in FY2013.

E. A discussion of the most recent costs for legal expenses and an explanation for the plan to reduce these costs over time, with emphasis on the particular nature of these costs in the context of CDU and its history.

Since FY2013, CDU has focused on three areas of professional staff recruitment and development to reduce exposure to legal contingencies, reduce the costs that result from such matters, and manage the frequency and amount of outside legal fees incurred.

1. Employee Relations – the University has strengthened human resource (HR) management functions and support services with hiring of a dedicated employee relations specialist. Through communication and education more broadly, HR officers have promoted an environment of protocols and compliance throughout the University. They are progressively improving faculty and staff personnel processes through: (a) implementation of an electronic position control/personnel action system; and (b) introduction of a commercial web-based position description, personnel recruitment, and performance review system.
2. Risk Management – a risk management professional was also recruited to support HR operations and to meet regulatory requirements, including implementation of loss prevention programs as part of campus-wide

training/education programs. Specifically, CDU is reducing exposure to workers' compensation and unemployment claims, contributing to a general reduction in liability insurance premiums of nearly \$100,000 this fiscal year relative to last.

3. Legal Counsel – The current (FY2014) budget includes provisions for a new position of in-house legal counsel; the position was filled in November, 2013. Having in-house legal counsel will reduce the need for outside legal services, enable cost-effective management of outside legal services when needed, and will add professional expertise to the employee relations and risk management initiatives described above.

The operational and financial returns on investment in these new professional staff and attendant initiatives were already evident as CDU entered the current fiscal year. The FY2014 line item of \$1,208,000 for legal expenditures was budgeted at 29% below FY2013 actual expenditures, and FY2014 actual expenditures through six months are 53% below year-to-date budget benchmarks. Based on current trends, actual legal expenditures for full FY2014 are expected to be approximately 61% of the original budget forecast.

F. Samples of the financial reports provided to key decision makers: what is the procedure, to whom do the reports go, and with what frequency?

Following is a summary of the recurring processes of: (1) report distribution to and meetings with key decision makers in each academic and administrative business unit; and (2) vetting presentations to each applicable governance team, committee, or board.

Unrestricted Expenditures – Reports to and Meetings with Decision Makers:

1. Monthly, the Chief Budget and Planning Officer (CBPO) and other finance officers distribute tailored reports to each academic and administrative business unit leader. The reports: (a) detail unrestricted non-personnel operating expenditures, and (b) summarize budget-to-actual results for unrestricted personnel and operating expenditures.
2. Quarterly, the CBPO distributes individual labor distribution reports to each academic or administrative business unit leader. These reports: (a) detail unrestricted salary paid to each employee – and in total – by month during the quarter; and (b) summarize the unrestricted annualized salary for each employee going forward as of the end of the quarter.

3. The CBPO meets monthly—or more often as conditions warrant—with various academic or business unit leaders to: (a) identify and explain variances noted in actual expenditures compared to budget; (b) provide supplemental additional information or analysis as needed; and (c) create action plans to correct adverse variances.

Restricted Expenditures – Post-Award Financial Performance Reporting:

Overview – The Finance Post-Award Group is supervised by the Assistant Controller and is responsible for monitoring and reporting of all restricted expenditures. CDU has awards (grants, contracts, donations, etc.) from multiple federal, state and county agencies as well as corporations and foundations. Each award has different reporting requirements; therefore, the office of finance has developed an in-house reporting tool for post-award activities called “CPR” (CDU Performance Reporting). This tool allows finance officers to set up awards by custom periods (different start and end dates) relative to the normal fiscal year of the University. The tool also hosts an e-mail customization module that facilitates time-sensitive communication with principal investigators.

Monthly Reporting – The Finance Post-Award Group sends monthly reports to the principal investigator in charge of an award. These reports are sent via email using the in-house reporting tool. The monthly reports include: 1) budget versus actual; 2) actual by month in trend format; and 3) transactional details. Principal investigators may also request and receive labor distribution reports on demand.

Monthly Meeting – finance officers meet monthly with research leaders and their key support staff to review project-specific results and trends, and to identify any matters that may have wider implications across CDU’s grant/restricted expenditure programs.

Harmony Meetings – For major restricted awards (>\$1,000,000 annually), a special “harmony meeting” is conducted on a periodic basis. At the harmony meeting, finance officers present reports on current financial status. These reports include: 1) project summary by object code; 2) project summary by core objectives; 3) transactional details; and 4) labor distribution reports.

Presentations to Governance Teams, Committees, or Board of Trustees:

The Controller and CBPO prepare a monthly presentation with summary and detailed financial data and analysis covering the following as applicable:

- Dashboard of key performance indicators – revenue, expenditures, operating results, budget performance, financial position, enrollment.

- Budget-to-Actual performance year-to-date – revenue by major category, expenditures by major academic or administrative business unit category, explanations of significant variances.
- Unrestricted and Restricted cash and investments, related returns on investments.
- Student Headcount, FTE, and Credit Hour census data and trends.
- Tuition revenue and expenditure forecasts.
- Faculty and Staff Headcount and FTE trends.
- Grants in process and restricted expenditures.
- Debt considerations.

The Controller and CBPO lead presentations at regularly scheduled governance meetings:

1. President and Chief Operating Officer: monthly.
2. Executive Management Team: monthly.
3. Academic Senate Budget and Finance Committee: monthly.
4. Board of Trustees Finance Committee: six times annually.
5. Board of Trustees: six times annually.

G. A review of the success of the fundraising program in the context of emerging strategic and financial planning.

In the March 2013 Interim Report, the University reported on three core facets of its fundraising initiative: (1) Creating a Fundraising Infrastructure; (2) Identifying Funding Sources; and (3) Cultivating, Reestablishing and Developing Relationships with Potential Contributors. The University continues to make progress in each of these three core areas and has also identified and adopted specific fundraising objectives under the financial sustainability goals of the CDU Strategic Plan.

Fundraising Objective: The fundraising objective stated in the recently approved CDU Strategic Plan is to *“generate and increase revenue through the Strategic Advancement/Development unit by \$2 million over the next three years.”*

Outcome(s):

1. A three-year plan for development/fundraising was developed and implemented in FY2013. The three year plan identifies an \$8.3 million target to be achieved between FY2013 to FY2015 from alumni, Board of Trustees, individuals, corporations and non-profit organizations. The plan recognizes that institutional priorities cannot be achieved by heavy reliance on public support and will require strategic private investments.

Combined Categories	Historical Average Annual Gift	Fundraising Target 2012-2013FY	Fundraising Target 2013-2014FY	Fundraising Target 2014-2015FY	Target 3 year Total 2013-2015FY
Alumni	\$ 10,940	\$ 13,128	\$ 15,754	\$ 18,904	\$ 47,786
Board of Trustees	\$ 26,590	\$ 31,908	\$ 38,289	\$ 45,947	\$ 116,144
Individuals *	\$ 43,380	\$ 52,056	\$ 62,467	\$ 74,960	\$ 189,482
Corporations	\$ 86,427	\$ 103,712	\$ 124,455	\$ 149,346	\$ 377,512
Foundations/ Non-profit Orgs	\$ 1,734,503	\$ 2,081,404	\$ 2,497,685	\$ 2,997,222	\$ 7,576,311
Total	\$ 1,901,840	\$ 2,282,208	\$ 2,738,649	\$ 3,286,379	\$ 8,307,235

Note: Fundraising targets for each fiscal year have been multiplied by 20% annually

* Individuals includes employees and faculty (current & former), individuals and students

** Foundations also includes non-profit organizations and colleges

- As illustrated in the table below, in FY2013 over \$5.9 million in restricted and unrestricted funds were raised through grants from individuals, foundations and corporate contributions.

Category	Target 2012-2013FY	Actual 2012-2013FY	Favorable / Unfavorable
Alumni/Board/ Individuals	\$ 97,092	\$ 1,079,401	\$ 982,309
Corporations	\$ 103,712	\$ 2,035,000	\$ 1,931,288
Foundations	\$ 2,081,404	\$ 2,805,188	\$ 723,784
Total	\$ 2,282,208	\$ 5,919,589	\$ 3,637,381

- A new Board of Trustees Development Committee was convened in September 2013 to fulfill two primary goals: (1) facilitate increased emphasis on development/fundraising expectations and contributions; and (2) prepare recommendations concerning establishment of fundraising/gift policies and procedures. The Board Development Committee will meet every-other-month, in advance of the meeting of the full Board of Trustees.

H. A report on the hiring of an Interim Provost and the progress towards hiring a permanent Provost.

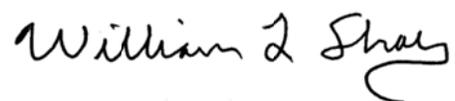
An Interim Provost was hired effective July 1, 2013. She has extensive senior management experience in organizational change, accreditation, and infrastructure development, and was recruited from California State University, Monterey Bay, where she served since 2007 as the Associate Vice President for Academic Planning and Institutional Effectiveness. For recruitment of a permanent Provost, CDU will retain a nationally-recognized search firm that specializes in higher education executives. The search process will be conducted in academic year 2014-15, with expectations of a permanent Provost in place by July 2015.

CONCLUDING COMMENTS

The administration of the University—particularly the financial leadership—remains focused on ensuring the long-term financial sustainability of CDU, through: (1) retention and professional development of finance department personnel; (2) improving financial affairs work flows and quality controls; (3) enhancing management information systems; and (4) distributing or explaining information to increase fiscal awareness and discipline throughout all academic and business units. Improved operating and financial performance while attaining a stronger financial position are evidence that CDU is succeeding in its financial sustainability goal, as framed by the new Strategic Plan of the University.

Please do not hesitate to contact CDU for any additional or clarifying information you may need to certify this Progress Report as fully responsive to the terms specified in the WASC Action Letter of June 17, 2013. Progressive improvement in the financial foundations and fiscal performance of the University are expected, and CDU welcomes the opportunity to further update WASC on its financial condition and prospects as part of the self-study that will be prepared for the WASC Special Visit to the campus in early calendar year 2015.

Sincerely Yours,



William L. Shay, Ph.D.
Assistant Provost/ALO
Charles R. Drew University of Medicine and Science
1731 E. 120th Street, Los Angeles, CA 90059