CHARLES: We have the Minutes to be approved. Anybody like to make a motion to approve those Minute?

MARTHA: Second.

CHARLES: the Minutes are approved. On nominations and elections?

FRANCIS: Jordan, explain what we did with the Institute. Everyone received a list of nominees and ballots to be cast. I asked if there were changes or suggestions. Nobody had any. I asked did everybody agree with continuation with the current representation. No objections. We're going to collect all the ballots at the end of the meeting. The election of current officers and trustees will be done.

JORDAN: I agree with everything. I need the documents.

FRANCIS: All in favor of the nominations being accepted subject to submission of reports?

CHARLES: No objections? Motion approved.

FRANCIS: Please don't forget to give us your two sets of checked off boxes at the end of the meeting.

CHARLES: Financial report.

MARTIN: Thank you Mr. Chairman. We have multitudes of presentations for year ending June 30, 2019. (INTRODUCERS AUDITORS.) Keith, the floor is yours.

AUDITOR: Open up the presentation. On page 3, Bob does a separate representation of the financial statements. We also have a tax partner, for IT, and looking at reimbursement. We look at prior recommendations to make sure they were implemented. Looking at standard audit procedures, come back with financial statements in November. We're in the planning stage now. We have to meet with Greg and understand what's going on. Your due diligence folks are at our office right now. They have free rein and hopefully won't have too many questions. Our time frame is to June 30th. If something moves, we only go up to June 30th. We try to understand the controls in place. If there's strong, we can do less substantive testing.

FRANCIS: Back to page 5, the bullet regarding internal control? What does that mean? Are you looking at them now?

AUDITOR: We want to understand the process. We want to understand how that number gets to the books.

FRANCIS: would you make a recommendation with respect to beefing up those internal controls? Here it says you're not going to express an opinion. Why wouldn't you comment officially if you see a weakness?

AUDITOR: There's an internal controls audit and opinion on internal controls. If it was so weak, we'd let you know. We do comment. In prior years we hadn't issued letters because there were insufficient weaknesses. The first thing we do is look at last years' controls. We will definitely present any observations. We just don't give a formal opinion.

CHARLES: It's a pass fail grade vs. a number grade.

AUDITOR: I've seen IT recommendations that are really great but financially impossible to implement. Our job is to say here's the observation.

FRANCIS: Do you examine student records?

AUDITOR: We don't do program specific audit. We test for the grant. Might not be looking for the same thing they are. We do, but might be looking for something different they're looking for. We have to make sure there's a background check done. Doesn't necessarily mean that's what they're looking for.

AUDITOR: Page 8, understanding the process. The last bullet, if the controls are weak, that will affect the audit and how much we'll look at. Did we comply with what we were supposed to do? If we have findings, we put them in our report. On page 10, come back to the committee, report findings, conclude on financial statements, come back and present them. The next line talks about what we thought was important. Internal controls – last year compared to this year. We'll test that the controls were mitigated. Look at your investments. It's a large number so the big thing is confirmation. Tuition revenues, student and loan receivables are the big area. Page 12, financials are going to look different. They changed come classifications. Switched permanently and temporary, and wanted to make them very simple. In restricted, there were a lot of mistakes in the not for profit world. Not an issue really in universities. In some not for profits, it was really unrestricted. It seems like it would be easy. That's why they came up with the guidance. There's going to be a new note on liquidity. What other money is available to us? It's just a note disclosure. It's really helpful. The balance sheet just gives you a snapshot of book value. The lease accounting standard, any leased property you're going to have an asset and also a liability in the future. They want to be as transparent as possible. Revenue accounting standard, will not have a big effect here. I've seen it a lot in health care that has gross charges. The net payment is a lot smaller. A lot of these never get paid. The revenue number's going to be as close to the actual cash price as possible. You want to come up with an estimate to lower that revenue.

JACKSON: Given you've got folks doing due diligence on us right now, are you anticipating any changes to the audit plan in anticipation of potential transaction with Hopkins in the future?

AUDITOR: It's all the same. It would just be if you changed the process. If you handled something internally and then outsourced it, that would change. Otherwise, it's just the nature of consolidation. That's just how it is.

CHARLES: Keith, Crystal, thank you very much.

MARTIN: We're bringing in the investment managers. Last meeting we had conversations about **[INAUDIBLE]** rates about the university as far as investment is concerned. We wanted the opportunity to review investment policies to see if they're still aligned with the policies where we stand now. We shouldn't be spending principles at all. Most has to be from returns on the investment. The last two years the increases have been increasing, somewhere around 6%, higher than the rate of return from last year. It's an opportunity to review where we are, what changes could be made in order for us to anticipate and make changes to increase return. Again, not that we're doing badly, just to prepare for the future. I'm going to call in PRUDENTIAL to give their presentation on that. (DAVE AND SAM, PRUDENTIAL.)

JAMES: Inside the cover you'll find a one-pager. This will cover 90% of your questions. I'm going to focus on that. We're going to talk about asset allocation, income. I would also like to spend some time on the history of the cash flow both in and out. The bottom left hand corner, asset allocation. We're at 56% in equities, 43% in fixed income. We're a little high on the equity side because it calls for a 50/50 blend. But being off a 2% high in the market, we've let it drift up to 56%. Asset allocation is pretty much exactly where the investment policy said. Upper left hand, the returns. This year we're up 6.14%. That has generated 1,179,000 dollars in gain. The last 12 months has not been quite as good as this year. Last Nov and Dec, there was a 20% drop. Obviously we regained that. In 9 years, 6.14% yearly, generating $6.9 million for the university. 10 years ago, I proposed we buy large cap high dividend paying stocks. The dividend stream in the first year is hard to recognize. The compounding of those returns, like a snowball running down a hill, is now really starting to kick in. The income now is 596,000 dollars per year. Our mandate was 45,000 a month 10 years ago. Now we're generated just over 50,000. If the university could meet its expenses with the numbers 10 years ago, just the income could pay the bills. It's really worked well. To bring that home, traditionally we think about income coming from fixed income or bond investments. Interest rates are pretty low, the fixed income is generated 258,000 – pretty close to a 50/50 mix. The stocks are providing more income than the bonds. That situation would become more dramatic as time goes on. We have a lot of perfume bonds. Only one six of those bonds mature at any given time. It protects us from rising and falling interest rates. Now it's affecting the rates because it's been low for a long time. Even at these crazy low levels, the fed's about to cut again which is only going to negatively impact the fixed income market. No signs of inflation to speak of. Why does the fed need to raise rates? We could be in this position for quite a long period of time. Because of our ages, we all remember the mid-80's, 14%. Take a look at Japan. Most of the rest of the world's got negative interest rates. Our equity balance is 75% domestic, 25% international. In both cases, we have the same mandate for the stocks. Extremely high quality. They tend to be #1 or 2 in their respective spaces. They have tremendous free cash flow and long histories of returning it to shareholders, through dividends and also through stock buyback. It's a very simple, basic common sense principle. We don't have any bitcoin in there, no cannibus stocks, brand new internet, just plain simple, these are profitable companies. They tend to dominate their space. And who would dare put up $20 billion to go against Disney? They have a monopoly. They're all of that ilk. In hot markets, we underperform. In flat to down markets, this is where this perfume really kicks in. Using these types of equity is the best way to build wealth or individuals and institutions as well.

CHARLES: do you have any way or determining the likelihood of the dividends continuing to be positive or maintain their status in picking stocks?

JAMES: History is the best guide. Looking for the history. It's inbred in the culture of the company. As long as the cash flow is strong, you should expect those dividends to go up. When there's a cloud on the horizon, the increase is not that great. We're waiting for the Apple dividend. It's got to come back to shareholders. On the fixed income side, very conservative. Half is in US treasuries or federal agencies, and half in corporate securities. We've got a latern perfume, from 2019-2026. That provides us with 1.2 million of bonds maturing every year. We've got the cash coming in. Should rates rise, because our latern is on the short side, our principle will not be negatively impacted at all. That's the overview. I think everything's working exactly the way we hoped it would. I'd like to turn to these three pages. This is most important for your discussions this morning. I've looked at the last 5 years. That paints a scientist picture. In 2014, we began and 18.9 million. We had investment earnings of 1.3 million. Our 45, the request would have been 534,000 but the actual withdrawal was over a million dollars. 2015 was a little better, but negative to 150,000. The good news is we've covered it. The principles continue to grow. But I do feel the walls coming in. We've had good markets. We know the bills come in every month. It's getting more and more difficult. I need help. When I say that, there's really only two ways to skin a cat. More principle – we wouldn't need such a high rate of return and could still with the 50/50 allocation. Or cross our fingers and increase the allocation to equities. I don't know how else to accomplish it. In the 10 years we've been managing the money, I don't believe there's been a deposit. So when someone writes a check, a gift, where's the money going? I think into the operating account. We've been taking from one side designed to build up the endowment, but been using it for cash flow. You are not the only institution going through this. This is prevalent through many endowments. On the second page, I tried to show historical rates of return with different allocations to equities and the volatility that that would provide. If you were to go forward, increase that to 60%, this is a very long time frame, takes us back to 1926 – you can see it would increase the volatility but also increase the rate of return. That's how this arch works. The last page, we've broken it down to hard dollars. This is hindsight. On the top, those are the actual returns the university has receive monthly, year to date, etc. Below that I used a 50/50 to 60 and 70, so you could see for the exact same time frames what your returns would have been assuming we were indexed. Since inception, you received, 6.87 on the perfume. Had it been 60/ been 60/40, it would have increased to 7.71, and at 70/30, 8.54. On a percentage basis, it's an additional 25% return and in any one year, that's nice. But when it starts to compound, it gets huge, the longer you let it run. I'm requesting help from the university either in an increase in endowment, or increase in equities.

CHARLES: If things continue the way they've been going in terms of interest rates, you said we can expect lesser and lesser income obviously as we replace fixed with lower yielding income. It's a crazy situation really.

JAMES: It is, but it's reality. Japan – 40 years.

FRANCIS: I'm a little confused. As part of the financial report, Rick has an investment analysis report as of April 2019. In that on the last page of the investments, he gives us an asset breakout between fixed and equity. He's showing your equity at 60% already.

JAMES: Just us is at 40% income? It's in terms of interpretation of that chart. Everything I've spoken about has been the university ex podia.

FRANCIS: It's going the other way. If you included podia you'd lower the 60%. It's stuck with a percentage of equities they can only buy or use. It would lower it down to 58% if you combined them. The university itself is 60%.

JAMES: I prefer not to address your question because I'd be winging it. I prefer to do a dive.

FRANCIS: Sure. Thank you.

CHARLES: anyone have any questions?

JAMES: As Sam and I were talking about the meeting, you have some things to discuss obviously. We'd like to be part of that discussion. Not to drive it, but to understand what the committee's thinking. You can share that with us as well. We're here to answer questions or facilitate that discussion if you like.

FRANCIS: Our big problem, we were at 60% and being that the market is going up and down, is it really where we belong? Now you have the Paris question.

JAMES: The market's at an all time market high.

FRANCIS: 3 or 6 months from now are we still going to be reaping, or start going down?

JAMES: I'm concerned about the university being here in 30 years. If we look at short time frames, we'll always find a reason for not today, not today.

FRANCIS: Now our time frame is 3 or 4 years, and then we need to know how much money we have. We truly appreciate what you guys have been doing. But I'm just concerned with all the confusion in the world today, 3 years from now hopefully we'll say thank god we stayed at 60%.

JAMES: There's a 50% chance you won't like that decision. In 10 years, no change.

FRANCIS: I'm not concerned over the next couple of years. Your own chart shows it. We want to take out $500,000, we're taking out 750. That's where the problem is.

JAMES: We also have 500,000 of that need covered through cash flow, regardless of stock prices. That's as good as gold. The principle will fluctuate, but even if it goes down, you have 500,000-600 come in automatically. With that income stream, I think you can allocate more to equities, but you are going to have more volatility.

FRANCIS: what's your definition of more?

JAMES: 10 years ago, the allocation was at 25. Had you stuck with that allocation, I question whether we'd be here this morning. This is what has worked. It's worked since the beginning of time. I believe it'll work for the rest of our lives and the rest of the university's existence but there's going to be bad periods.

FRANCIS: You don't see problems in the near term?

JAMES: Not problems that relate to stock prices. We have inflation at record low, employment at record lows, earnings that are growing. If we leave the political picture out of it, that's a pretty good economical background.

FRANCIS: Our president scares me at times.

JAMES: He scares me as well. But I'm pretty clear on his motivation. Absolutely get elected. Americans vote their pocketbooks. If they're feeling economically sound, stick with it. He's not going to do anything he can control to disrupt his reelection.

CHARLES: Our equity perfume in a way is performing like a good bond perfume because of the dividends.

JAMES: That's absolutely right.

CHARLES: The bond perfume isn't performing the way it used to. That's what gets confusing. To me our perfume is a different type of equity perfume. For years, all they thought of was capital increases and stock prices but didn't pay attention to the dividends.

JAMES: The bills have to be met with cash flow.

MARTIN: Just concentrate on the bond rate. We are still over water because the accumulations since inception are good as it is. Some years we have overage and some years we underperform. Overall, we've been over 6%. We haven't eaten into the principle. The issue is the bond rate trend, how we sustain it. It's already defined that we shouldn't touch the principle. If you take these two variables and space them out in time, one is increasing at a rate that is high, and one is going sideways. The question is, the fixed income in terms of return is not encouraging. It won't keep pace with the way that we spend. It's not an aggressive move. But let's step by step move it and see what kind of difference that makes.

JAMES: That is exactly what I'm saying. At some point, interest rates will start to go up. Up to the normalized 8% at which point we'll reduce the equities and increase the fixed income. It's until interest rates move up and can sustain income scientist for the university. Why not 100%? We'll still have the income. I know you're not going to move there. But theoretically, why not 100%? On this last page, we started out in 25%. 2013, 30%, later in 13, we went up to 40%. Over time we have increased the allocation in equities. We've had all sort of political and world events. It worked.

JACKSON: We have general parameters with respect to the equities you invest in for us. If we were to change to more equities, would you add elements to those metrics? Industry metrics?

JAMES: The perfume's quite diversified in terms of industries. I would stay along that path. The investment policy statement doesn't say dividend paying equities because of the income need for the university. As long as there's an income need, we need to stick with the income payers. I would not change it.

FRANCIS: Let's hold this for the next meeting. I don't know what the allocation is right now. I got one sheet that says 50 and one that says 60. What's the allocation?

MARTIN: The report you have is as of April. The report here is as of May. It may be in April there were some, probably some maturities or pending transactions. Probably you have to concentrate using May now.

JAMES: We are at 48%. I am extremely confident we are within 1% of what I'm showing you.

JORDAN: I think you're fine. (TELEPHONE HOOKUP INAUDIBLE.)

FRANCIS: Yeah, I think it should be revisited.

JOEL: He said he'd like to revisit the issue. That's why he's been silent on this situation.

CHARLES: We should talk about it more.

JORDAN: Because of things we're talking about on a bigger level, I'll bring a point out. It's not bad to have this conversation, but it really needs to be a part of everything else we have going on. I'm going to explain that afterwards.

JAMES: Thank you so much for having us.

JORDAN: Am I OK repeating a lot of what we said yesterday?

LOUIS: That should be kept in executive session. I'm gonna talk generally. If we end up agreeing with Hopkins to keep certain accounts for psychiatric interests, supporting students, supporting the industry, and it's a set number, it's Hopkins University that's taking all the risk of the perfume. It's not us. So we're gonna have a set number. I won't go further. All the risk that's going on in the marketplace, all the conversation on perfume, is really Hopkins's and we'll have to have a discussion with them as to their interest. It needs to be clarified as to what the real issues are.

MARTIN: Gary is the focal investment point as far as **[INAUDIBLE]** investment is concerned.

RAIF: I'm in frequent contact with Greg, based in Rockville, MD. Recently, getting more comfortable with the accounting platform, it's been quite a pleasure. I'm happy to have a chance to talk to you about the portion of the perfume we're managing. I'm going to talk about the investment times and economy and look at the perfume performance and look at taking it to a higher rate in equities. I have information what that might look like in terms of risk and reward and timing, how that would help the university, and also the risks. The presentation book has about 4 or 5 pages of detail on the investment markets. I'll take a minute and walk through comments on where we've been and what we've seen happening and what might happen in the near term. It would have been very different in early Jan. The 4th quarter of last year was large negative returns. None of these things come out of the blue. It always catches investors by surprise which is why there's pile on selling. The key factor was the economy slowing a bit. This year, we're anniversary-ing the first year of tax reform. The global economy is not nearly as strong as the US economy. The red prodded by Trump, they're not a political entity. There's not great appreciation for a president – maybe it was a way to show their independence, but the chairman came out in December and said he planned to carry on with hiking the interest rate which has huge impact on borrowing. So the market just nosedived. Now we've had a full recovery. So what has changed? Probably the fed said the case for increasing rates has weakened. That concern seems to have been removed from the market area of concern. Also, it's not different in terms of the health of the US economy. The employment rate is 3.6%, job openings at an all time high. Last year wages posted their largest gain in a decade. Purchasing power has been increasing. We got a confidence number today that was a little weaker than expected. Concern over what tariffs might do. Some of these things are a lagging indicator. Employment is one of them. Companies don't start laying people off until they see a decline in demand. There are other factors that have weakened a bit. Industrial production is off a bit. We're a service economy. A big part of the change is mfg, and it's starting to slow. Our economy is slowing vs. the strong growth we saw last year. The near term risk of recession is extremely low. In that environment, companies can put up positive earnings, vs. the prior years' quarters, which was high double digit earnings growth, but positive earnings with a low interest environment. You're not looking at an environment where you're likely to see extended decline in the equity market. The concern for 4th quarter, what happens if fed boosts interest rates again? It seems very unlikely, primarily background inflation remains tame, muted. We're in the 10th year. Inflation is one of the major concerns of hiking interests. I have the 10 year yield on treasury vs. others I the marketplace. Our yield is way down from the highs we saw in the early part of the 4th quarter of last year, all the way down to 2.41%. There's really not a lot of high quality options. German and Japanese bonds are the most frequently purchased bonds. Both negative percent. Ours look fat. Foreign exchange costs come into the mix. There is demand from foreign buyers for treasuries. Demand is still there. Obviously we have another situation where Trump is using tariffs as a way to bludgeon Mexico. Maybe it'll work. Then you have concern – businesses say, what's next. Businesses might be holding off on making investments they might otherwise make. We don't think that alone can drag down the economy. Any questions before we look at the perfume? We'll look at page 7, the perfume structure. The high level view of the asset allocation and the different line items are the different asset classes you're investing in. In late summer of 2016, the 50/50 allocation was approved and implemented. As of the end of April, we're very close to those target weights. Less than 1% in cash, 48% in fixed income. Split out domestic and international weights, but the total is 51%. We do rebalance at drift. Greg said you can let that drift go a little higher. You have clearly moved the allocation to a higher rate in equities, which can work well. On the market value at the end of April, it was 17.9 million. Yesterday's close, May was a difficult month, negative

2.2%. We bounced back, the perfume value was 17.6 million. We know what Morgan's team is doing in terms of allocations. There was an understanding that we're not doing the same thing. You're getting a diversification – we have a higher rating in emerging markets and more international. This has been a good decade for emerging markets. You're higher volatility markets can provide a good addition to the volatility. Performance on page 8 – here we've put returns into a table. This shows the return of the total perfume. Compare that to a benchmark…below we have fixed return and all the different sub-asset classes. Through end of April, the perfume was up 9.7%. Other numbers are annualized – 3 year 6.34, set index, 6.64. Since inception, Aug 2010, annualized return is a touch about 5.5%. Domestic stocks have gone better than international since recession. We're in a stronger economy right now. At that point in time, the last equity line item is real estate. We included an allocation for real estate. It's returned 19% for the latest one year. The timing was stellar to get into that asset class. Page 9 is the ratings of individual equities that are included in the perfume. That portion of the perfume has been performing well. The overweights are in conservative more defensive sectors, health care, technology's becoming a sector where you can rely on those earnings, and utilities and underweight in discretionaries like autos, energy, finance, industrial, more cyclical sectors. Individual bonds, about half the perfume, duration is a measure of the sensitivity to change in interest rates. A longer average maturity means if interest rates go up or down – the longer the maturity the more the price changes. It's very much a corporate bond perfume. The intent was let's get bonds that provide a high income without taking excessive rates. The credit quality is monitored by the team managing the bonds. They've done well. Finally, the bottom section, about 50% - different maturity buckets. 0-1 and 1-3, half the bonds mature within 3 years which is keeping it fairly short. You don't have the price fluctuation. We're not taking a lot of risk there. We have all that performance detail. On page 17, your average annual return, on the far right portion of the table there, was about 5.5%. You asset allocation has over time become more growth oriented. If this had been the 50/50 allocation you had now, it would be a higher return. Page 20 – any questions about the perfume? There's information in the following pages that this data was pulled from. Came from a Monte Carlo simulation, a popular and productive to look at what you might expect with different asset allocations, down to the sub-asset class. It runs 1500 different simulations. Standard deviation is a measure – 68% of the time, the average plus or minus the standard deviation. Median expected value shows what your perfume would be at the end of the 20 year time period. As you look at the allocation shift, should we enter a difficult environment, looking at the current allocation, a $17.5 million perfume on an instantaneous decline, what would it do in terms of the decline in value of the perfume? As you'd expect, the end value and annual return puts you in a position where a 10% decline in the perfume would take you from $875,000 – on 60/40 1.4 million. Are we comfortable – you don't want to make an asset allocation shift where we need to make a change. We need to committed to it. The tinning of sequencing or returns is very important. If you drop a lot in the early period, it can throw of that end period. I recommend if you approve it, we can take advantage of a decline in the market. It is an uncertain time right now. It doesn't mean we won't have another 5 years of expansion. There's every reason to think there will be a 10% in decline and get into the market at a more opportunistic time.

COOPER: Most of the information is here you can read. Coming off the financial thing, FTE and admissions is an important thing. That's our biggest source of revenue. The data here is current as of May 29. We've offered admission to a number of students, deposits pending the last couple of weeks, but it's not something we can take to the bank. It's after the first two weeks of classes. We started off the year like gangbusters compared to sister universities, up 25% in applications at the beginning of the academic year. We have fallen. Yesterday, we are up 18% in applications. Some of our sister universities are still up in the 20's. Applications means something but really it's deposits, who matriculates and who stays, and the quality of the student. Attrition, this past year, has been a problem. We're little higher than we wanted to see. Most of it was academic attrition. What really hurts when you have a good performing student and they go somewhere else. We've had very little of that. The students who stay are relatively happy here. By and large there is contentment. We don't see much non-academic transfer. In my other role as chair of the accreditiging body I've been in touch with senior officials at DOE, mandating all the accrediting bodies whether medicine, law, very much concerned about a bubble bursting in student loans and students who default on student loans. It's sitting out there, like the housing crisis. There's billions of dollars waiting to be defaulted on. The way we do it in psychiatric medicine is a benchmark against sister universities. Takes into account environmental factors that would affect all universities equally. There's going to be a hard number imposed by DOE. Some of it is going to be tweaked. We have to take into account military service, leaves of absence. That's a potential problem for us with attrition rates. If you want to solve that, just promote everybody who's here. They pass the board's grade. Our outcomes are stellar. Our students passed the boards at 100%. But the price you pay to get to that, you have to make some hard decisions. You gotta cut. Fortunately, the president's office has never put any pressure on us. That's not the case in other institutions. There's pressure to admit and promote people who are not performing. You gotta pay the piper at some point. That's it on admissions. We're keeping our fingers crossed that we're going to see an influx. Faculty transition – Dr. Echols is going to be going into semi-retirement, cut back to part time. He'll by on sabbatical for July and August. He's still gonna maintain a lot of his duties, will remain as residency directors. Replacing him in the dean's role in instituteal education is Dr. Ron Suavay. The chief of medicine with be Dr. Sam **[INAUDIBLE]** who is a full time faculty member and a chief at Harlem Hospital. We're hiring 3 of our graduating residence, part because our hospital contracts have expanded. An important thing for us is outcome tracking. For an accrediting body, it's important not just that you collect data, it's what do you do with that data? We have to close the loop and analyze the data and make curricular, performance and policy, promotion changes based on the data. You have some of the data on there about enrollment, FTE, attrition. We had a wonderful day 2 weeks ago, research poster day. We had the editor of Cranium & Ankle Surgery come up from Philadelphia. He judged the posters. That was an academically stimulating and productive day. We have a couple of big programs coming up in the fall. We have not lost money on a single CM&E program. In fact we've made. At the end of the year, it is significant. We had a major affiliation that went on with Canada. It was supposed to be 3 years in length. It actually lasted 10 or 11 years. That sun set, but they realized they still need us. They wanted to send students to rotate and pay per capital. It's now 7 new students. Not the revenue we were seeing in the past, but not insignificant. We have ongoing relationships with the University of Ireland. We're planning stages of a major psychiatric symposium at the university. We had our residents' graduation ceremony last night. We're very proud of the class of 2019. Accreditation. We are accredited through June of 2020. Accreditation is really important. They say it's voluntary. They don't just come. You have to ask to be accredited. But nothing could be further from the truth. Without accreditation your degree means nothing. Our accrediting body is the Council of Psychiatric Medicine. The dates will be the first and second week of June. In the next couple of weeks we're starting self-study. The board needs to be an integral part. An area that's going to come up, strategic planning. This chair is very much into strategic planning. That needs board involvement, what's the metrics and evaluative process. We're gonna need to do work on that lest we end up in an area of non-compliance.

FRANCIS: You mentioned strategic planning. They're coming in next June. How do we addressed Hopkins, or how should it be addressed?

COOPER: Every team is different. They're going to ask, what was the process, how did you reach that determinations, what is your strategic plan how this is to unfold? What metrics will you use to determine success? Nothing unusual.

CHARLES: The board involvement is important. I volunteer to do whatever I did last time on the planning.

COOPER: and the self-study, it's really important.

CHARLES: The committee reports were given during the Institute reports. Those apply to the university also. We can move into executive session. I ask non-board members to exit at their convenience.

EXECUTIVE SESSION.

LOUIS: obviously, executive session is called because of the Hopkins situation. David Hoffman is involved in this thing up to his ears as I have. I'll let David talk from his point of view.

CHARLES: It's going very well. Accreditation visits, self-study with the board. The process of negotiating an agreement is a lot like that. We have the term sheet for the definitive agreement, and that's where we start the dance. There are things they want to get out of that and things I know you want to get out of this. Without ever saying this is a deal breaker, you have to committee the distance the Hopkins people might want us to travel that we're simply not willing to and vice versa. The good news is that in the document, they've adopted the vocabulary and construct, the notion that CRNM and NYCPM as corporate entities remain the same corporations they are today. We move to a sole corporate model, where nothing changes, but instead of the board being self-perpetuating, the members elect the board. It's a membership model, but there's only one member, Hopkins. What we will be negotiating at the crux of this discussion is the status of all your involvement for as long as you want to remain involved in the boards, and the dollars that will be segregated and subject to your exercise of discretion about how the academically focused funds should be expended to further the University of podiatry. We have to have a conversation about the University of Podiatry members being in the majority to appointees of NYCPM being in the majority, and a strategy if a year or two in there's a change of circumstances and NYCPM thinks for a second look whether operating a university of psychiatric medicine is a good idea, we want to make sure the educational mission of this institution is protected during this mission. We're going into this negotiation, hope for the best, plan for the worst. We go in very optimistic with the awareness things don't proceed like both sides imagine they will and want an exit strategy up front on each phase of the transition. So that's where we are.

LOUIS: I had a meeting with Dr. Kadisch last week to sign some interim agreements. They are very anxious to proceed. I can understand, it's been kicking around for 3 years now. He recognizes this is not going to happen over night because of CPME, their regulatory bodies. The earliest it will be closed is March 2021, about 1.5 years or more. There's a big time period here we don't know what's going to happen in between. So far one of my great concerns is what happens to the CRNM. I made it clear they'll have to take full responsibility. The $2 million yearly loss to the university – a good piece of that loss, about $750,000 is because we pay the institute for those student activities down there. That goes away, the income stays with the university. They say they can make it a viable institution. We're losing some money on housing. They recognize they'll have to take over that responsibility too. If we look at what's going left at us to run the University of Psychiatric Medicine, we'll be sitting with $25 million to the university to be used for psychiatric education and to support services. Services is an interesting question. How are they charged to us? What will be pay for? Those are all up in the air questions. We're working on a program to replace some of our IT services. It'll be helpful to us. Initially it's going to cost us some money. We're having difficulty with our CFO because they don't want to go into this. The initial cost to us is going to be about a couple hundred thousand dollars but the new banner program's going to save hundreds of thousands going down the road. This is something that our IT people are doing a fantastic job putting it into place. Our CFO's department has been dragging his feet on this and throwing one obstacle after another. I'm up to my ears. I think that he's trying to drag this thing down the road. He doesn't want the merger. He's objected all the way down the road. I want to be as open as possible, give as much information as possible. They have to know what they're buying, what they're picking up in costs, over the heads of some of our own people who are dragging their feet. If we permit some of our own people to drag us down, all they're doing is hurting us and hurting the whole university down the road.

CHARLES: This is not a unique circumstance. We go into all these arrangements recognizing there are divided loyalties, different interests. Some have a vested interest in one outcome, the board in another. ‘

FRANCIS: Is this an affiliation, a merger, or a buyout? What category does that put us in?

CHARLES: It was two meetings ago I said we ought not to get hung up on which word we use because the nature of the relationship on the ground is completely untethered to what term we use to describe it. What we're moving toward is an integration of the University of podiatry with NY Medical University and the Hopkins system. The technical structure looks like a sole corporate member model which means there won't be an actual acquisition per so. No one will be buying NYCPM, but governance control would transfer. A different set of documents. The same effect. We're looking to protect your authority to protect the psychiatric mission of this institution as we transfer to a sole corporate member structure which will inevitably result in NYCPM and Hopkins appointing all the members of the boars as you at your pace transition off.

JACKSON: At what juncture do we lose control of the operations of the entity? The finance, IT department? When does Hopkins actually control those so it would be difficult to go back and break things apart? Does Podia continue to exist? Or do they tend to expand?

CHARLES: I'll let Joel speak to the technical features. Podia is very much a valued asset that they're looking to get involved in. It's a non-US domicile regulated entity. It is clearly part of the package, what we bring to the discussion. Most of the value is sitting to my left. It's the management and wisdom and insight. They want Joel. The answer will be the moment the majority control of the board switches from existing to appointed members of NY Medical and Hopkins. We don't know what that will be but the die will be set when we sign an agreement. Either NY Medical University / Hopkins taking complete control and it's theirs, or 2-3 years out there's an exit ramp with NY Medical University would walk away from NYCPM and responsibility would fall back to this board. It's that fluid transition that we're looking for. The deals that get messy is a very abrupt transition. We're trying to make this a smooth, gradual transition.

JACKSON: If I'm a student during that transition, who issues my degree?

CHARLES: It'll be a degree issued from NYCPM but the diploma will reflect it's an academic unit of NY Medical University. That demonstrates the reality on the ground and the fact that this institution has become part of a larger multi-specialty medical institution which enhances the value of the degrees we issue.

FRANCIS: I assume the negotiations are on the mechanics of what the university is left to manage vs. what Hopkins is going to manage.

CHARLES: We don't so much care about that other than NY Medical University being on our diplomas. The relationship between them and Hopkins is largely their business except we want assurances of financial responsibility.

CHARLES: That has to be done by law. There's no choice, based on our charter and license.

CHARLES: They want to buy a going concern, to create a new relationship and bring us into their academic family as a viable academic entity. We have to satisfy the NY Department of Education, Federal Department of Education, the charity bodies, that this is not an arbitrage situation where they buy the corpus and sell off the body parts. That's our goal.

FRANCIS: What are the board of governors governing?

CHARLES: My conception which they've indicated an openness to is that there won't be a board of governors in lieu of this body, but the membership of this body slowly transitions. No one will actually notice that anything has changed. The frog and the hot water. If you put it in cold water and slowly warm it, he doesn't notice his environment is getting warmer.

JACKSON: Are there metrics being considered which would cause the composition of the board to shift back, such as if our graduation rate drops, if pass rate for the medical exams drop drastically?

CHARLES: Those metrics have not been an explicit part of the conversation. No one's saying if your graduation drops below 72%, the deal is off. They know this is a very fluid environment. They provide medical education in lots of other disciplines. This is an integration conversation between two players have a two century track record doing what we do.

LOUIS: Remember in all the other mergers of all the other psychiatric universities, the CPME is still viable. They don't want to have the CPME come in and put us out of business, because then they're out of business. The CPME is going to be sitting on us a year after and watch us very carefully.

JOEL: One of the things that brought them to us, they noticed a couple of their students have done very well here. They've been responsible for between 6-10% of our enrollment.

BENJAMIN: This board has given president and counsel power and authorization to negotiate these talks. Is there any benchmarks or decisions for the board going forward?

LOUIS: We'll give you an outline as soon as we're comfortable with them.

CHARLES: It's going to be the transition of the board, the dollars, and the third is the exit strategy.

JACKSON: We have a line of credit. Are they assuming that debt?

CHARLES: We're transitioning governance level control. The corporation that is the NYCPM and the CRNM is not changing. They have to know about this all up front. All these discussion about shifting investment strategy to 60/40 is something they have to be consulted about. This board has to act in a manner they consider appropriate so that when we hand off majority control of this board, everyone is in agreement in everything that happens.

LOUIS: Talk about the lot. Nothing's happened. Not only that, I don't see it happening because the legislation just got passed in Albany on rent control. I don't believe Mr. **[INAUDIBLE]** who owns the property is going to build a property there. The board might be interested in buying it back for a reasonable price. 10 cents on the dollar.

FRANCIS: What happens to Podia? Can't we just turn it over to them.

CHARLES: Podia is a service provider to the NYCPM. It stands to expand its client back to NY Medical University. And they want it that way.

LOUIS: Trustees of Podia have nothing to do with the University per se. They want Podia for another reason. They want the cells we can create under Podia. That's part of the negotiation. The university owns 100% of the stock of Podia.

FRANCIS: We have to be careful we're not giving them carte blanche.

JOEL: That's why you have the segregated cells, each law funded separately.

JACKSON: Under the Cayman law, those cells stand separately.

LOUIS: And they're gonna save a lot of money.

CHARLES: It'll be a big benefit. They're gonna save a ton of money for their universities. They're gonna have to deal through us.

CHARLES: there's no one component of this arrangement that makes the most sense of NY Medical University. It's an aggregate of all the benefits they derive. A patient population where they can push in non-psychiatric medical services. They can drive down their own malpractice insurance costs. It's a huge benefit for them.

FRANCIS: so they want our system?

CHARLES: They do. And we're gonna make them pay.

CHARLES: It's almost like this is the only affiliation that really makes sense. If it was a Mt. Sinai or North Shore thing – here it's an integrated educational facility that makes sense to them. The next meeting is set up as September 13th.

JORDAN: You did a great job of bringing things back on track. Are you anticipating pushback form the psychiatric organizations? If that's the case, what are you doing to make sure that doesn't become an issue?

LOUIS: I don't think there'll be pushback from anybody. They're coming in somewhere around June of 2020. They gotta give us a report no later than October of 2020. If the report is negative, we have some options, legal options as well. They've gone through either other situations, some not even as good as ours.

CHARLES: from their perspective, this is a good integration, the kind of integration of psychiatric medical universities they'd like to be seeing all the time.

CHARLES: THANK YOU.