University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2017 and 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

University System of Maryland Foundation, Inc. and Subsidiary

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Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of the
University System of Maryland Foundation, Inc. and Subsidiary
Adelphi, Maryland

We have audited the accompanying consolidated financial statements of the University System of Maryland Foundation, Inc. and Subsidiary (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University System of Maryland Foundation, Inc. and Subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

September 15, 2017

Consolidated
Financial Statements

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, (in thousands)		**2017**		2016
Assets				
Current assets				
Cash and cash equivalents	**$**	**142**	$	-
Accounts receivable		**158**		150
Accrued interest receivable		**81**		136
Contributions receivable - current portion		**4,465**		5,576
Other current assets		**217**		264
Total current assets		**5,063**		6,126
Investments				
Endowment		**267,408**		241,363
Operating		**55,622**		53,350
Held for other foundations		**968,067**		862,291
Total investments		**1,291,097**		1,157,004
Other assets				
Contributions receivable - long term portion		**11,035**		9,918
Contributions receivable from remainder trusts		**796**		975
Angus breeding herd, trademark, logo, records, and data bank		**1,914**		2,102
Real and personal property, net		**11,435**		11,201
Other assets		**435**		445
Total other assets		**25,615**		24,641
Total assets	**$**	**1,321,775**	$	1,187,771
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**3,317**	$	3,475
Deferred income		**2,319**		2,995
Total current liabilities		**5,636**		6,470
Other liabilities				
Payables under split-interest agreements		**3,365**		3,358
Due to other foundations and affiliates		**968,515**		862,734
Total other liabilities		**971,880**		866,092
Total liabilities		**977,516**		872,562
Commitments and contingencies				
Net assets				
Unrestricted		**62,829**		60,765
Temporarily restricted		**80,905**		74,133
Permanently restricted		**200,525**		180,311
Total net assets		**344,259**		315,209
Total liabilities and net assets	**$**	**1,321,775**	$	1,187,771

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2017 (in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	$ 1,890	$ 16,443	$ 3,182	$ 21,515
Investment income	760	2,891	-	3,651
Other program income	664	-	-	664
Courses and conferences	1,290	-	1	1,291
Sales and services	4,808	-	-	4,808
Change in value of split-interest agreements	-	160	56	216
Realized and unrealized gains on investments, net	4,962	6,799	17,291	29,052
Net assets released from restrictions	19,514	(19,514)	-	-
Total revenues	33,888	6,779	20,530	61,197
Expenses				
Program services				
Scholarship, faculty, and department support	24,146	-	-	24,146
Total program services	24,146	-	-	24,146
Supporting services				
General and administrative	5,512	-	-	5,512
Fundraising	2,163	-	-	2,163
Total supporting services	7,675	-	-	7,675
Total expenses	31,821	-	-	31,821
Change in net assets before transfers	2,067	6,779	20,530	29,376
Transfers to System affiliated Foundations	(3)	(7)	(316)	(326)
Change in net assets	2,064	6,772	20,214	29,050
Net assets, beginning of year	60,765	74,133	180,311	315,209
Net assets, end of year	$ 62,829	$ 80,905	$ 200,525	$ 344,259

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2016 (in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	$ 2,227	$ 14,726	$ 3,487	$ 20,440
Investment income	949	2,905	-	3,854
Other program income	231	-	1	232
Courses and conferences	1,083	-	-	1,083
Sales and services	5,420	-	-	5,420
Change in value of split-interest agreements	-	58	(55)	3
Realized and unrealized (losses) gains on investments, net	(1,761)	3,596	(10,486)	(8,651)
Net assets released from restrictions	19,346	(19,346)	-	-
Total revenues	27,495	1,939	(7,053)	22,381
Expenses				
Program services				
Scholarship, faculty, and department support	23,243	-	-	23,243
Total program services	23,243	-	-	23,243
Supporting services				
General and administrative	5,794	-	-	5,794
Fundraising	2,528	-	-	2,528
Total supporting services	8,322	-	-	8,322
Total expenses	31,565	-	-	31,565
Change in net assets before transfers	(4,070)	1,939	(7,053)	(9,184)
Transfers to System affiliated Foundations	(2)	-	(21)	(23)
Change in net assets	(4,072)	1,939	(7,074)	(9,207)
Net assets, beginning of year	64,837	72,194	187,385	324,416
Net assets, end of year	$ 60,765	$ 74,133	$ 180,311	$ 315,209

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

June 30, (in thousands)		**2017**		2016
Cash flows from operating activities				
Change in net assets	**$**	**29,050**	$	(9,207)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized (gains) losses on investments		**(28,973)**		8,666
Realized gains on investments for split interest agreements and others		**(79)**		(15)
Amortization (accretion) on contribution receivable discount		**56**		(66)
Depreciation		**137**		135
Bad debt expense		**789**		174
Contributions restricted for long-term investment		**(5,027)**		(6,708)
Change in cash surrender value of life insurance		**(13)**		(13)
(Increase) decrease in assets:				
Accounts receivable		**(8)**		(32)
Receivable from investments sales		**-**		30
Accrued interest receivable		**55**		1,017
Contributions receivable		**(851)**		(373)
Other assets		**258**		501
Contributions receivable from remainder trusts		**179**		32
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		**(158)**		420
Deferred income		**(676)**		(325)
Payables under split-interest agreements		**7**		(14)
Due to other foundations and affiliates		**105,781**		(10,847)
Net cash provided by (used in) operating activities		**100,527**		(16,625)
Cash flows from investing activities				
Purchases of investments		**(450,209)**		(105,539)
Proceeds from sales or distribution of investments		**345,168**		115,675
Purchases of real and personal property		**(371)**		(219)
Net cash (used in) provided by investing activities		**(105,412)**		9,917
Cash flows from financing activities				
Proceeds from contributions restricted for long-term investment		**5,027**		6,708
Net cash provided by financing activities		**5,027**		6,708
Increase in cash and cash equivalents		**142**		-
Cash and cash equivalents, beginning of year		**-**		-
Cash and cash equivalents, end of year	**$**	**142**	$	-
Supplemental disclosure of cash flow information				
Income taxes paid	$	1,698	$	2,760

See accompanying notes to consolidated financial statements.

1. Nature of Operations

The University System of Maryland Foundation, Inc. (the "Foundation" or "USMF", also known as The University of Maryland Foundation, Inc.), a separately incorporated independent Foundation, manages funds received for the benefit of the Institutions of the University System of Maryland ("USM") or the University of Maryland Medical System ("UMMS"). The Foundation also offers the affiliated foundations associated with the Institutions of the USM and the community colleges in the State of Maryland the opportunity to invest their assets in the Foundation's endowment pool. The Foundation is organized to receive, hold, invest, manage, use, dispose of, and administer property of all kinds, whether given absolutely or in trust, or by way of agency or otherwise, for the benefit of the USM or for all of the education and support activities that may be conducted by the USM or UMMS.

The Foundation is comprised of two separately accounted-for divisions: the University System of Maryland Foundation Funds and the Wye Herd, as well as a wholly owned subsidiary for-profit corporation, the USMF Corporation (refer to Note 13 for a discussion on the USMF Corporation).

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements of the Foundation are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting. As described in Note 1, the Foundation is comprised of two divisions as well as a wholly owned subsidiary. The consolidated financial statements include the accounts of these entities. All significant intercompany transactions and accounts are eliminated in consolidation.

Cash and Cash Equivalents

Cash and short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with funds held in trusts or by external endowment investment managers are classified with the deposits and investments, respectively. Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at cost, which approximates market value.

Accounts Receivable

Accounts receivable consists primarily of monies due from affiliated institutions for payments made by the Foundation on behalf of those institutions. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2017 and 2016. The Foundation's policy is to write-off all receivables that are deemed to be uncollectible. Accounts receivable are written off if reasonable collection efforts are unsuccessful.

Contributions Receivable

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of June 30, 2017 and 2016. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. Amounts due are recorded at the net realizable value discounted using discount rate of 3.25% for both years ended June 30, 2017 and 2016. The Foundation's policy is to write-off all contributions receivable that are deemed to be uncollectible.

Investments

Investments are stated at fair value. Unrealized and realized gains and losses are included in the consolidated statements of activities and changes in net assets.

Investments in publicly traded equity and debt securities are stated at quoted market values. For all of these investments, the Foundation has concluded that the net asset values reported by the individual fund managers approximates the fair value of the investments. Changes in fair values are reported as unrealized gains or losses in the accompanying consolidated statements of activities and changes in net assets.

Alternative investments may include absolute return funds, long/short equity hedge funds and private capital funds for which there may be no ready market to determine fair value. For these investments, the Foundation has concluded that either the net asset values reported by the individual fund managers or the ownership percentage of the fund's net assets approximate the fair value of the investments. These estimated values do not necessarily represent the amounts that will ultimately be realized upon the disposition of those assets, which may be materially higher or lower than values determined if a ready market for the securities existed.

Valuation of Investments

The Foundation carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the Board of Directors of the Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Foundation might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

The change in net unrealized gains or losses on investment securities is reflected in the consolidated statements of activities and changes in net assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed monthly among the individual endowment accounts on the basis of the number of units of the pool held by each individual endowment account. If the donor document requires that unspent earnings be added back to the corpus, then losses below the cost basis of endowment assets shall first reduce permanently restricted net assets to the extent of accumulated unexpended earnings, then temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the assets have not been met before the loss occurs with any remaining loss reducing unrestricted net assets.

See Note 3 for further details on valuation of investments.

Angus Breeding Herd, Trademark, Logo, Records, and Data Bank

Management's policy for accounting for the Angus breeding herd, trademark, logo, records, and data bank is to combine these asset groups and value them as a single group rather than individually, due to the relationship of each one to the others. These assets are related to the Wye Herd, (a cattle and research facility noted in Note 1).

Real and Personal Property

Real and personal property is carried at cost. The Foundation's policy is to charge all additions over $1,000 (in dollars) to the asset account, but to charge the cost of repairs, maintenance and minor betterments to operations in the year in which the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which are five years. Depreciation expense totaled $0.1 million for both the years ended June 30, 2017 and 2016. Asset and accumulated depreciation accounts are relieved when an asset is sold or otherwise disposed. Accumulated depreciation totaled $2.5 million and $2.3 million for the years ended June 30, 2017 and 2016, respectively. All artwork and land given to the Foundation are annually reviewed to determine if there is any impairment and to determine that the asset's book value is still reasonable given these assets are not depreciated.

Contributions of Real and Personal Property

The Foundation receives various contributions of non-cash items. It is the Foundation's policy to record those assets not intended for sale at fair market value at the date of the gift. These assets are held for investment purposes and are not depreciated.

Due to Other Foundations and Affiliates

Due to other foundations and affiliates consists of funds invested by the Foundation on behalf of other foundations and the annuities and trusts administered for other foundations. These funds are recorded on a per unit basis and managed with funds of the Foundation. The Foundation assesses the affiliated foundations an annual management fee which is comprised of a separate investment services fee and an administrative fee. The fees are assessed in relation to the individual management contracts each affiliated foundation has with the Foundation and are based on the fair value of endowment and operating funds administered. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled $2.9 million for both the years ended June 30, 2017 and 2016, and are included in sales and services in the consolidated statements of activities and changes in net assets.

Foundation management, based on other foundations' and affiliates' requests, designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses, depending on the type of investment portfolio into which the asset is placed. The fees assessed by the Foundation are for expenses related to the operation of the Foundation such as management of the endowment, audit, and accounting functions and development as needed to assist USM institutions. Professional investment fees are paid to the investment managers prior to the distribution of income.

The amounts due to other foundations and affiliates at June 30, 2017 and 2016, were as follows (in thousands):

		2017		2016
Allegany College of Maryland Foundation	**$**	**11,009**	$	9,858
Alumni Association International		**4,660**		4,256
Bowie State University Foundation		**7,197**		6,317
Community College of Baltimore County		**10,093**		7,816
Coppin State College Development Foundation, Inc.		**9,003**		8,454
Frederick Community College Foundation		**13,788**		11,729
Frostburg State University Foundation		**22,331**		20,042
Hagerstown Community College Foundation		**9,542**		8,614
Harford Community College Foundation		**8,910**		-
Howard Community College Foundation		**8,757**		7,485
M Club		**2,325**		2,125
Towson University Foundation		**8,281**		7,375
UMB Foundation		**243,682**		211,448
UMCP Foundation		**341,089**		309,236
University of Baltimore Foundation		**3,740**		3,332
University System of Maryland		**264,108**		244,647
Total	**$**	**968,515**	$	$ 862,734

Classification of Net Assets

The Foundation's net assets have been grouped into the following three classes:

Unrestricted Net Assets

Unrestricted net assets generally result from revenues derived from providing services and receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets

Temporarily restricted net assets generally result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted Net Assets

Permanently restricted net assets generally result from contributions and other inflows of assets, which cannot be used by the Foundation. Income from these assets can be unrestricted or restricted based on donor stipulation.

Unrealized and realized gains and losses, dividends, and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor restrictions.

Contributions and Grants

The Foundation reports gifts of cash and other assets as restricted support held in separate accounts if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted support. Amounts outstanding are recorded at the net realizable value discounted based on the period of future payment, using a rate of return that a market participant would expect to receive at the date the pledge is received.

Split-Interest Agreements

The Foundation also receives contributions in the form of charitable gift annuities and charitable remainder unitrusts, for which the Foundation acts as trustee and holds the assets. When the trust's obligations to all beneficiaries expire, the remaining assets will revert to the Foundation to be used according to the donor's wishes.

The Foundation recognizes the estimated fair value of these agreements as contributions receivable and revenue from those trusts where the Foundation is not trustee. Where the Foundation is the trustee, the estimated fair value is recognized as an asset and as contribution revenue. The fair value is based on the present value of estimated future distributions to be paid over the expected term of the trust agreements.

Amortization of the related discount and revaluation of expected cash flows are recognized as changes in the value of split-interest agreements in the year in which they occur.

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to the beneficiary under the terms of the agreements. The estimated annuity liabilities expected terms are based on the Internal Revenue Service (IRS) actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under the Internal Revenue Code (IRC) Section 7520 and range from 0.3% to 10.6%.

Realized and Unrealized Gains/Losses

The Foundation reports realized and unrealized gains (losses) net of investment manager fees. The following schedule reflects the gains, losses, and fees for the years ending June 30, 2017 and 2016 which does not include $19.3 million and $15.1 million in fees paid to the investment managers relating to investments held for other foundations for fiscal years ending June 30, 2017 and 2016, respectively. See section "Due to Other Foundations and Affiliates" for more information.

2017 (in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Realized and unrealized gains on investments, gross of fees	**$ 5,491**	**$ 7,402**	**$ 22,388**	**$ 35,281**
Investment fees, not including those relating to managed funds which are included in permanently restricted	**529**	**603**	**5,097**	**6,229**
Realized and unrealized gains on investments, net of fees as recorded in the consolidated statements of activities and changes in net assets	**$ 4,962**	**$ 6,799**	**$ 17,291**	**$ 29,052**

2016 (in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Realized and unrealized (losses) gains on investments, gross of fees	$ (1,316)	$ 4,073	$ (6,368)	$ (3,611)
Investment fees, not including those relating to managed funds which are included in permanently restricted	(445)	(477)	(4,118)	(5,040)
Realized and unrealized (losses) gains on investments, net of fees as recorded in the consolidated statements of activities and changes in net assets	$ (1,761)	$ 3,596	$ (10,486)	$ (8,651)

Expenses

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of a USM institution or UMMS, a department activity, or for the Foundation's business operations and have been classified as such. Fundraising expenses in the consolidated statements of activities and changes in net assets include approximately $0.0 million and $1.3 million for the years ended June 30, 2017 and 2016, respectively, expended on behalf of USM institutions.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the fair value of non-traditional investments and the net realizable value of the accounts and contributions receivable. Actual results could differ from those estimates.

Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the years ended June 30, 2017 and 2016, therefore, no provision for income taxes has been made.

Income taxes are accounted for under the asset and liability method in accordance U.S. GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For the years ended June 30, 2017 and 2016, the USMF Corporation generated an immaterial amount of taxable income and a corresponding tax liability was created. Income tax expenses for the both years ended June 30, 2017 and 2016 were immaterial. The USMF Corporation's liability was considered immaterial and therefore was not recorded in the consolidated financial statements.

Authoritative guidance on accounting for uncertainty in income taxes defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits, and also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2017 and 2016 for uncertain tax positions. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2014.

Reclassifications

Certain amounts presented in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation, with no effect on the change in net assets, as previously reported.

Recently Adopted Authoritative Guidance

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The update also provides related disclosures. The guidance is effective for annual periods ending after December 15, 2016. The adoption of this guidance had no impact on the Foundation's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Foundation until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial positon and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Foundation's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Foundation's consolidated financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

3. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement* (ASC 820) defines fair value, requires disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the inputs to the valuations of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following three-level hierarchy classifies the inputs used to determine fair value:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category include listed equities and listed mutual funds.

Level 2 – Pricing inputs include market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. Investments which are generally included in this category include less liquid and restricted equity securities and fixed income securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in private equity and investment funds as well as off-shore hedge funds.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment on the part of the Foundation. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

Some of the Foundation's investments may be illiquid and the Foundation may not be able to vary the portfolio in response to changes in economic and other conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if the Foundation is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

The Foundation reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. These investment funds are held as units or interest in institutional funds or limited partnerships, which are stated at net asset value (NAV) or its equivalent. The Foundation uses the NAV as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. The Foundation has not categorized these investments in levels within the fair value hierarchy table.

The following tables present the financial investments held by funds in which USMF invests. The following investments are carried at fair value as of June 30, 2017 and 2016, by the fair value hierarchy defined above (in thousands):

	June 30, 2017				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Fair Value
Money-market funds and short-term investments(1)	$ 21,389	$ -	$ -	$ -	$ 21,389
Corporate and municipal bonds(2)	-	11,941	-	-	11,941
Equities and mutual funds(3)	356,311	10,100	-	-	366,411
U.S. Treasury notes and bonds(2)	-	10,028	-	-	10,028
U.S. Agency Securities(2)	-	200	-	-	200
Collateralized mortgage obligations/assets and mortgage backed securities(2)	-	7	-	-	7
Absolute return(4)	-	-	131,704	118,062	249,766
Long/short equity hedge funds(5)	-	-	84,861	136,673	221,534
Private capital(6)	-	-	340,722	69,099	409,821
Total Investments	$ 377,700	$ 32,276	$ 557,287	$ 323,834	$ 1,291,097

* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statement of financial position.

	June 30, 2016				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Fair Value
Money-market funds and short-term investments[1]	$ 37,702	$ -	$ -	$ -	$ 37,702
Corporate and municipal bonds[2]	-	11,376	-	-	11,376
Equities and mutual funds[3]	199,599	-	-	-	199,599
U.S. Treasury notes and bonds[2]	-	5,851	-	-	5,851
U.S. Agency Securities[2]	-	474	-	-	474
Collateralized mortgage obligations/assets and mortgage backed securities[2]	-	8	-	-	8
Absolute return[4]	-	-	115,127	173,739	288,866
Long/short equity hedge funds[5]	-	-	126,864	152,540	279,404
Private capital[6]	-	-	264,833	68,891	333,724
Total Investments	$ 237,301	$ 17,709	$ 506,824	$ 395,170	$ 1,157,004

* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statement of financial position.

There were no transfers of assets between Levels 1, 2 or 3 classification for the years ended June 30, 2017 and 2016.

(1) USMF invests in money-market funds and short-term investments, including amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. The Foundation invests in money-market and short-term investments to maintain liquidity for spending needs and unfunded commitment liabilities. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The Foundation has not experienced such losses on these funds. USMF has classified these investments as Level 1. Valuation is based on quoted market prices.

(2) USMF invests in corporate and municipal bonds, U.S Treasury notes and bonds, U.S Agency securities, and collateralized mortgage obligations/assets and mortgage backed securities through managed accounts. Fair value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. The Foundation invests in these assets to protect investment return in the event of sudden interest rate changes as well as to maintain

liquidity for spending needs and unfunded commitment liabilities. USMF has classified these investments as Level 2. Valuation is based on similar asset values in active markets.

(3) USMF invests directly in common stock, preferred stock and mutual funds. In general, equity securities and mutual funds traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the Nasdaq Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. The Foundation invests in equity securities to gain exposure to the overall direction of global equity markets. The underlying securities within the account have quoted prices available in active markets and have no redemption restrictions and therefore, USMF has classified these investments as Level 1. Some other funds that are not actively traded and have some redemption restrictions have been classified as Level 2.

(4) Absolute return investments track the purchase and sale of shares in companies that are the subject of publicly announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments has been estimated either by using the net asset value (NAV) per share of the investments or the ownership percentage of the fund's net assets. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. The notice period for redemption of investments ranges from one month to six months. There are no outstanding unfunded commitments to this asset category. USMF has classified the investments fair values by ownership percentage of the fund's net assets as Level 3.

(5) Long/short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles. Also, early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, the Foundation does not have the ability and, therefore, has classified investments in those vehicles, excluding investments valued by NAV, as Level 3. The fair value of these investments has been estimated either by using the net asset value per share of the investments or the ownership percentage of the fund's net assets. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding unfunded commitments to this asset category.

(6) Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in non-marketable securities of new companies or companies considered to be in the early stages of growth. Investments in private capital presented at fair value as approved by the Foundation's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or investment manager generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by the Foundation's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed

relevant. Such value represents the Foundation's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2017, unfunded commitments within the private capital category equal approximately $355 million.

The fair values of Level 3 investments have been estimated by management based on all available data, including information provided by third-party pricing vendors, fund managers, custodians and general partners. The valuations of alternative investments are classified as Level 3 due to the use of unobservable inputs in their year-end fair value measurement. Unobservable inputs include 1) use of NAV or the ownership percentage of the fund's net assets for alternative investment vehicles that are private, 2) capital account activity during the gap period of the most recent investor statement and the Foundation's year-end, and 3) known performance adjustments for alternative investments that hold securities with observable fair valuations. There were no changes in valuation methodologies as of June 30, 2017 and 2016.

Alternative investments are recorded at fair value based on NAV as a practical expedient provided by the respective general partner or fund administrator of the individual alternative investment funds or the ownership percentage of the fund's net assets. Due to the limited availability of valuation data as of the Foundation's year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. Management adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, and redemptions or returns of capital during the gap period. Net capital activity during the gap periods increased management's estimates $7.5 million and $1.5 million for years ended June 30, 2017 and 2016, respectively. Management will also adjust for known performance adjustments for alternative investments that hold publicly traded securities. Performance adjustments ranged from 0.04% to 1.65% for those investments on a one month lag. No performance adjustments are made to investments on a quarter lag given the unobservability of investment performance at the time of report issuance.

The Foundation believes the carrying value of alternative investments in the consolidated statements of financial position is a reasonable estimate of its ownership interest in the alternative investment funds. As part of the Foundation's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets. Management performs a retroactive review of its fair value estimates by comparing to actual year-end statements received subsequent to year-end.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. The Foundation's alternative investments are held with sophisticated investment managers who received audited financial statements during the year that aid in management's ability to approximate fair value.

The following table is a roll forward of the consolidated statements of financial position amounts for financial instruments classified by the Foundation within Level 3 of the fair value hierarchy as defined above (in thousands):

		Significant Unobservable Inputs (Level 3)
Fair value recorded at June 30, 2015	$	499,557
Realized and unrealized losses, net		(12,143)
Purchase of portfolio investments		62,211
Proceeds from sale or distribution of investments		(42,801)
Fair value recorded at June 30, 2016		**506,824**
Realized and unrealized gain, net		**20,673**
Purchase of portfolio investments		**105,807**
Proceeds from sale or distribution of investments		**(76,017)**
Fair value recorded at June 30, 2017	$	**557,287**

Realized and unrealized gains (losses) recorded for Level 3 investments are included in "realized and unrealized gains (losses) on investments, net" on the consolidated statements of activities and changes in net assets. Total unrealized gains for Level 3 investments was $4.4 million for the year ended June 30, 2017 and the total unrealized losses for Level 3 investments was $5.0 million for the year ended June 30, 2016.

Fair value and cost of investments

The fair value and cost of investments held by funds in which USMF invests at June 30 were as follows (in thousands):

	2017		2016	
	Fair Value	**Cost**	Fair Value	Cost
Money-market funds and short-term investments	**$ 21,389**	**$ 21,381**	$ 37,702	$ 37,702
Corporate and municipal bonds	**11,941**	**12,076**	11,376	11,454
Equities and mutual funds	**366,411**	**345,319**	199,599	192,852
U.S. Treasury notes and bonds	**10,028**	**10,070**	5,851	5,783
U.S. Agency Securities	**200**	**204**	474	477
Collateralized mortgage obligations/asset and mortgage backed securities	**7**	**8**	8	8
Absolute return	**249,766**	**144,236**	288,866	203,138
Long/short equity hedge funds	**221,534**	**150,310**	279,404	198,570
Private capital	**409,821**	**462,172**	333,724	402,367
	$ 1,291,097	**$ 1,145,776**	$ 1,157,004	$ 1,052,351

Of the fair value of $1.3 billion and $1.2 billion at June 30, 2017 and 2016, respectively, $1.1 billion and $968.9 million, respectively, is invested in the endowment pool and $190.7 million and $187.8 million, respectively, is invested in the operating portfolio. There are $0.3 million in investments not invested with the pools at both June 30, 2017 and 2016.

The Foundation committed $1.037 billion and $891.0 million to private capital as of June 30, 2017 and 2016, respectively, of which $682.0 million and $586.0 million has been called as of June 30, 2017 and 2016, respectively. These commitments are to be funded through transfers from other level 3 investments and new cash.

4. Concentration of Credit Risk

The Foundation maintains cash in bank accounts in amounts that may exceed Federally insured limits at times. The Foundation has not experienced any losses in these accounts in the past and believes that it is not exposed to significant credit risks because the accounts are deposited with major financial institutions.

The Foundation believes that it has limited credit risk associated with remaining balance of accounts and contribution receivable due to the size of the amount owed and its donor base.

5. Contributions Receivable

As of June 30, 2017 and 2016, the Foundation's contributors had unconditionally promised to give approximately $16.7 million and $16.6 million, respectively.

Promised contributions are due as follows at June 30 (in thousands):

	2017	2016
Contribution receivable	**$ 16,655**	$ 16,593
Less: unamortized discount	**(1,155)**	(1,099)
Net contributions receivable	**$ 15,500**	$ 15,494

Amounts due in:

	2017	2016
Within one year	**$ 4,577**	$ 5,727
One to five years	**12,078**	10,866
Total	**$ 16,655**	$ 16,593

The discount rates used to calculate the present value component are as follows:

	1-5 Years
2017	**3.25%**
2016	3.25%

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately $0.8 million and $1.0 million at June 30, 2017 and 2016, respectively. The difference between the fair value of contributions receivable and the carrying value is deemed to be immaterial for financial statement purposes.

6. Conditional Promises to Give and Intentions

To the extent the following items are conditional promises to give, they are not recorded in the Foundation's financial statements.

Life Insurance Policies

The Foundation has been named as the beneficiary of various life insurance policies. These policies had face amounts of approximately $2.0 million at both June 30, 2017 and 2016 and these amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give. In addition, the Foundation is owner and beneficiary of policies with face amounts of $750,000 (in dollars) and $771,000 (in dollars) and cash surrender values of approximately $275,000 (in dollars) and $262,000 (in dollars) at June 30, 2017 and 2016, respectively, and are included in other assets in the consolidated statements of financial position.

Bequests and Intentions (Unaudited)

Contributors have informed the Foundation of intentions to give approximately $15.8 million at June 30, 2017 and 2016. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended. These amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give.

7. Endowments

The Foundation's endowment consists of approximately 1,562 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with MUPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the endowment fund
2. The purposes of the Foundation and the endowment fund
3. The general economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net asset composition by type of fund as of June 30 is noted below (in thousands):

2017	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ 13,465**	**$ 22,372**	**$ 200,525**	**$ 236,362**
Board-designated endowment funds	**6,920**	**2,098**	**-**	**9,018**
	$ 20,385	**$ 24,470**	**$ 200,525**	**$ 245,380**

2016	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 12,706	$ 19,137	$ 180,311	$ 212,154
Board-designated endowment funds	5,943	2,514	-	8,457
	$ 18,649	$ 21,651	$ 180,311	$ 220,611

Changes in endowment net assets for the years ended June 30 (in thousands):

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	**$ 18,649**	**$ 21,651**	**$ 180,311**	**$ 220,611**
Investment return				
Investment income	**233**	**298**	**56**	**587**
Net appreciation (realized and unrealized)	**2,420**	**2,492**	**17,291**	**22,203**
Total investment return	**2,653**	**2,790**	**17,347**	**22,790**
Contributions	**137**	**1,383**	**3,182**	**4,702**
Courses and conferences	**-**	**-**	**1**	**1**
Appropriation of endowment assets for expenditure	**(1,051)**	**(1,347)**	**-**	**(2,398)**
Transfers to System affiliated Foundations	**(3)**	**(7)**	**(316)**	**(326)**
Endowment net assets, end of year	**$ 20,385**	**$ 24,470**	**$ 200,525**	**$ 245,380**

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 19,521	$ 21,439	$ 187,385	$ 228,345
Investment return				
Investment income (loss)	433	281	(55)	659
Net depreciation (realized and unrealized)	(697)	(654)	(10,486)	(11,837)
Total investment return	(264)	(373)	(10,541)	(11,178)
Contributions	143	980	3,487	4,610
Other program income	-	-	1	1
Appropriation of endowment assets for expenditure	(749)	(395)	-	(1,144)
Transfers to System affiliated Foundations	(2)	-	(21)	(23)
Endowment net assets, end of year	$ 18,649	$ 21,651	$ 180,311	$ 220,611

Permanently Restricted Net Assets - Endowment Funds

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by MUPMIFA as of June 30 (in thousands):

	2017	2016
Academic programs	**$ 33,441**	$ 31,350
Student support	**116,139**	103,113
University advancement	**831**	650
Research	**2,439**	2,282
Faculty support	**47,675**	42,916
Total	**$ 200,525**	$ 180,311

Temporarily Restricted Net Assets - Endowment Funds

The portion of temporarily restricted net assets related to the endowment funds as of June 30 (in thousands):

	2017	2016
Academic programs	**$ 9,533**	$ 7,379
Student support	**12,929**	12,266
Research	**524**	519
Faculty support	**1,484**	1,487
Total	**$ 24,470**	$ 21,651

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. In accordance with generally accepted accounting principles, deficits of this nature that are reported in unrestricted net assets were approximately $0.0 million and $0.3 million as of June 30, 2017 and 2016. This deficit resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Return and Risk Return Objectives

USMF has adopted investment and spending policies for the endowment that seek to provide a steady and sustainable distribution of funds to support operations at its various institutions. The Investment Committee governs according to fundamental investment principles, approved by the Investment Committee and USMF Board of Directors, with the objective of achieving superior risk-adjusted returns in order to grow the corpus of the capital base and provide capital for spending distributions for constituents. Specifically, the goal of the endowment is to achieve returns in excess of inflation plus spending plus fees. Within the context of risk-taking, specific risk metrics are outlined for staff and the Investment Committee to reassess the portfolio's positioning if these levels are breached.

Strategies Employed for Achieving Objectives

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (liquid investments), private risk assets (illiquid portion of the portfolio), intermediate assets (private assets with shorter, finite illiquidity periods), and safe assets (cash and U.S. Government securities). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overlay class (liquid, exchange traded instruments that aim to hedge against undesired risks). The asset allocation target ranges inclusive of these securities as of June 30, 2017 is as follows:

Asset Class	Policy Target	Minimum	Maximum
Safe Assets	2%	0%	25%
Intermediate Assets	15%	15%	25%
Portfolio Overlay	0%	0%	5%
Public Risk Assets	48%	45%	75%
Private Risk Assets	35%	20%	40%

The endowment portfolio is constructed based on the following principles:

1. **Allocation**: The overall goal of the investment committee in establishing the asset class ranges is to create balance across the portfolio between sources of return, liquidity timeliness, and types of risk. The purpose and definition of each asset class and sub-class is as follows:

   a) **Safe Assets** are defined as investments with little-to-no principal risk. These assets are U.S. Government securities and cash. This portion of the portfolio is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress.

   b) **Intermediate Assets** represent private, finite life investment vehicles whose term is generally longer than public risk assets, but shorter than private risk assets. Since there is modest illiquidity within these investments, they seek to earn returns above market lending rates, but not as high as private risk assets. Many strategies within this asset class have a credit or contractual yield orientation, with lower correlations to public equity markets. These include strategies such as direct lending, distressed lending/sales, and niche credit opportunities. In many cases, collateral is attached to these investments and/or they seek a higher priority of payments within a stressed or distressed environment. They offer idiosyncratic return/risk profiles that are generally more predictable and consistent; thereby aiming to reduce overall portfolio risk in tandem with earning attractive returns.

c) **Portfolio Overlay** is another line of defense for capital preservation. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. This is achieved through a number of liquid exchange traded instruments that aim to hedge against undesired risks. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as needed, opportunistic basis.

d) **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. Within this section of the portfolio, a number of uncorrelated objectives across equity and credit managers and instruments are sought.

Orientations vary as they seek growth, value, momentum, inflation protection, and/or catalyst driven events. Some of these investments will track closely to market indices, with a goal to earn or exceed the benchmark return, but with less risk than the benchmark. Other investments will not closely follow a market benchmark, as they seek to offer broad diversification for the aggregate portfolio, while still earning high risk adjusted returns, while muting general equity market volatility when possible.

e) **Private Risk Assets** are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the endowment's capital, the portfolio can hold illiquid investments that may take years for profit realization. While the use of capital is sacrificed during this timeframe, these investments are held to higher hurdles of performance, as they are expected to earn a significant return premium over public market equivalent investments. These investments seek to invest in the debt and/or equity of businesses as well as physical assets. A wide variety of strategies are utilized across varied geographies, sectors, and liquidity profiles, so as to achieve market and vintage year diversification.

2. **Diversification**: By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the endowment fund's assets may be invested in one fund and no more than 10% of the endowment fund's assets may be invested in one manager. The Investment Committee, however, may make an exception in special circumstances.

3. **Rebalancing**: In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocation ranges.

Spending Policy and Relationship of Spending Policy to Investment Objectives

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. If the agreement with the donor so provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Some agreements provide that the corpus can be invaded to provide for spending stability.

The Foundation's policy of appropriating as of July 1 of the fiscal year was based on the following:

The Board of Directors has authorized a formulaic approach as an advisory tool to determine the annual spending rate. The approach is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be between 4.5% and 3.5% of the moving average market value for the years ended June 30, 2017 and 2016, respectively. Spending rates may not violate any donor restrictions.

a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.
b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI).

After considering the formulaic approach and other relevant inputs, an annual spending rate is established. The spending rates for both 2017 and 2016 were 4.0%. The approved spending rate for 2018 is 4.0%.

Newly created individual endowment funds, in order to have annual spendable income, must be invested for at least one year prior to the calculation date and have a minimum value of $10,000.

In establishing this policy, the Spending Policy Committee considered the long-term expected return on the endowment and its goal of preserving principal. Accordingly, over the long term, USMF expects the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

The Board approved a blanket carry-over for 2 years of unspent appropriated funds as of June 30. A special request must be made to carry-over unspent appropriated funds from more than two prior years into subsequent fiscal years.

8. Restricted Net Asset Activity

Temporarily Restricted Net Assets

Temporarily restricted net assets, including endowment funds, were available for the following purposes at June 30 (in thousands):

	2017	2016
Academic programs	**$ 39,263**	$ 35,323
Student support	**18,359**	17,327
University advancement	**3,356**	2,681
Research	**18,034**	16,917
Faculty support	**1,893**	1,885
Total	**$ 80,905**	$ 74,133

Net Assets Released from Restrictions

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Expenditures on permanently restricted funds are released out of the appreciation related to those funds to the extent allowed by the donors. Such net assets were released as follows during the years ended June 30 (in thousands):

	2017	2016
Academic programs	**$ 8,638**	$ 6,942
Student support	**5,324**	6,900
University advancement	**662**	169
Research	**3,069**	3,455
Faculty support	**1,821**	1,880
Total	**$ 19,514**	$ 19,346

9. Pension Plan

The Foundation maintains a defined contribution plan for certain personnel provided by the Teachers Insurance and Annuity Association ("TIAA") and the College Retirement Equities Fund ("CREF"). The Foundation contributes 7.25% of the employee's compensation to a 401(a) plan. Effective July 1, 2005 the Foundation revised its pension plan so that employees are fully and immediately vested. In addition, eligible employees are entitled to make voluntary contributions to a 403(b) plan. The Foundation established a 457(b) plan for top executives in 2002. Total pension expense for the years ended June 30, 2017 and 2016 was approximately $171,000 (in dollars) and $151,000 (in dollars), respectively.

10. Contributed Services and Office Space

A number of unpaid volunteers contribute their time to the Foundation. In addition, the Foundation's offices are located in the USM Administration building under a quid pro quo arrangement. The Foundation's President is also the USM Vice Chancellor for Advancement and USM provides space and computer equipment in exchange. The value of these services has not been included in the financial statements as these services are overall immaterial to the consolidated financial statements.

11. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately $3.4 million as of June 30, 2017 and 2016.

12. Related Party Transactions

Various members of the Board of Directors of the Foundation are associated with organizations which manage a portion of the Foundation's assets, or in which the Foundation has invested. These associations include investment by the directors in entities in which the Foundation has also invested, business relationships between the directors and entities in which the Foundation has invested, employment of the directors by an investment manager or one of its affiliates, and participation by the directors on the Board of Directors of an investment manager.

Members of the Board of Directors do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those directors are associated. Approximately $29.8 million or 2.3% and $30.2 million or 2.5% of the Foundation's total assets of $1.3 billion and $1.2 billion at June 30, 2017 and 2016, respectively, are invested in entities that have associations with members of the Foundation's Board of Directors.

13. USMF Corporation

In November 2004, the Foundation established the USMF Corporation, a for-profit subsidiary, for the purpose of holding investment assets that potentially generate unrelated business income subject to federal and state income tax. At June 30, 2017 and 2016, this corporation held $12.3 and $13.8 million in net assets, respectively, and has a net operating income of $1.2 million and $0.6 million for the years ended June 30, 2017 and 2016, respectively, which are reflected in the consolidated financial statements.

14. Subsequent Events

Subsequent events have been evaluated by management through September 15, 2017, the date the consolidated financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these consolidated financial statements.

Supplementary Information

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Independent Auditor's Report on Supplementary Information

To the Board of Directors of the
University System of Maryland Foundation, Inc. and Subsidiary
Adelphi, Maryland

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

September 15, 2017

University System of Maryland Foundation Funds

University System of Maryland Foundation, Inc. and Subsidiary

Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2017 (in dollars)

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	$ 25,038	$ 2,824	$ -
Bad debt	-	-	789,397
Building – repair and maintenance	300,063	(39,595)	-
Conferences	85,503	16,477	1,375
Contract expense	2,090,018	-	-
Custodian fees	55	85,026	-
Delivery	13,757	6,257	44,016
Depreciation	12,099	124,901	-
Dues and memberships	54,319	98,599	2,239
Educational programs	591,812	11,161	125
Equipment	135,120	312,573	7,265
Heritage club	-	7,030	-
Insurance	-	118,497	-
Legal and professional	-	189,452	-
Miscellaneous	3,519	6,464	-
Office expense	23,707	54,946	785
Office rent	43,950	117,380	-
Personnel	576,088	3,392,665	217,852
Printing	183,262	49,343	150,224
Public relations and promotion	1,062,772	413,444	359,278
Relocation and recruitment	14,115	855	-
Services	3,602,273	400,098	587,197
Student support	4,827,645	-	-
Taxes	-	3,400	-
Telephone	7,744	16,190	-
Transfers to The University System of Maryland	9,648,580	-	-
Travel	553,943	123,879	3,291
	23,855,382	5,511,866	2,163,044
Wye Herd's expenses	290,395	-	-
Total expenses	$ 24,145,777	$ 5,511,866	$ 2,163,044

University System of Maryland Foundation, Inc. and Subsidiary

Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2016 (in dollars)

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	$ 28,708	$ 90	$ -
Bad debt	13,072	-	160,625
Building – repair and maintenance	182,926	47,313	-
Conferences	139,634	90,327	665
Contract expense	2,552,953	-	77
Custodian fees	-	72,435	100
Delivery	48,082	16,811	22,751
Depreciation	23,935	111,002	-
Dues and memberships	59,283	106,566	-
Educational programs	852,189	8,221	-
Equipment	261,658	335,314	8,661
Heritage club	-	7,343	-
Insurance	-	124,011	-
Legal and professional	2,200	195,714	-
Miscellaneous	2,095	3,691	-
Office expense	29,950	36,025	750
Office rent	41,358	118,767	125
Personnel	528,484	3,194,184	223,659
Printing	174,713	49,503	59,304
Public relations and promotion	960,331	413,226	222,475
Relocation and recruitment	7,718	3,047	-
Services	2,236,467	547,096	565,518
Student support	5,767,179	-	-
Taxes	-	4,997	68
Telephone	3,755	15,545	-
Transfers to The University System of Maryland	8,557,060	96,821	1,250,192
Travel	626,172	196,289	13,406
	23,099,922	5,794,338	2,528,376
Wye Herd's expenses	142,747	-	-
Total expenses	$ 23,242,669	$ 5,794,338	$ 2,528,376