“.....it is our ‘systemness’—working together, leveraging our resources, and using economies of scale— that strengthens our ability to have a broad-based, positive impact.”

CHANCELLOR ROBERT L. CARET
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LETTER FROM THE CHAIR AND PRESIDENT</td>
<td>1</td>
</tr>
<tr>
<td>LETTER FROM THE CHANCELLOR</td>
<td>2</td>
</tr>
<tr>
<td>FY 16 BY THE NUMBERS</td>
<td>4</td>
</tr>
<tr>
<td>INVESTMENT REPORT</td>
<td>6</td>
</tr>
<tr>
<td>FINANCIAL HIGHLIGHTS</td>
<td>10</td>
</tr>
<tr>
<td>FINANCIAL STATEMENTS</td>
<td>11</td>
</tr>
<tr>
<td>LEADERSHIP</td>
<td>30</td>
</tr>
</tbody>
</table>
This past fiscal year, the University System of Maryland (USM) celebrated the inauguration of Chancellor Robert L. Caret and welcomed several new faces to the USM (see below). We are excited to welcome these leaders to the community as we aim to uphold Chancellor Caret’s vision of “systemness.” Working with our partners to build endowment and a culture of philanthropy, we keep this collaborative endeavor in mind.

As Dennis Wraase completes his term as chair, the Foundation is stronger than ever. Working with Governance Committee Chair Bonnie Stein, our board is becoming more diverse and more representative of the USM institutions we serve. We have also become more actively involved in sustained efforts to build endowment on our campuses. Now in its third year, a $50 million quasi-endowment, invested with the Foundation and established with reserve funds from our institutions and the USM office, is adding resources to campus endowment-raising efforts. Early indicators show that the quasi-endowment fund is beginning to gain traction.

There were several developments on the financial front in FY 16. The Foundation continued its relationship with BDO USA, now in its second year as our external auditor, and once again we received a clean audit. We hired Northern Trust as our new bank custodian, thus enhancing the Foundation’s operational efficiency. The endowment portfolio ended FY 16 with a -1.8% return, outperforming its benchmark by approximately 360 basis points. The operating portfolio ended FY 16 with a -0.5% return, tracking closely to its policy benchmark. We are pleased with the defensive nature of our portfolios, as performance exceeded our expectations, protecting capital in a challenging market environment. In the interest of sustainability, the Foundation committed to becoming a signatory to the United Nations Principles of Responsible Investing. Becoming a signatory demonstrates our commitment to responsible investing that incorporates environmental, social, and governance factors into investment decisions. The Foundation also joined the Intentional Endowments Network, which supports organizations in aligning endowment investment practices with their missions, values, and sustainability goals without sacrificing financial returns.

As we move forward into FY 17, we continue to concentrate on growing endowments and private donations. In the spirit of systemness, we are also considering how we may support and collaborate with one another in ways that benefit the System as a whole. As always, we look forward to the future of the Foundation and are tremendously thankful to our dedicated board members.

**LEADERSHIP TRANSITIONS**

**Maria Thompson** ■ President, Coppin State University
Maria Thompson was appointed as president of Coppin State University in May 2015 after a national presidential search. She leads the urban historically black university into its next generation with her experience in building a research enterprise and raising the quality of academic programs across an institution.

**Kim Schatzel** ■ President, Towson University
Kim Schatzel was appointed the 14th president of Towson University in December 2015. Before working in higher education, Schatzel was an entrepreneur and a businessperson and served as a founding president, a chief operating officer, and a CEO of a firm that employed more than 1,500 people on four continents.

**Ronald Nowaczyk** ■ President, Frostburg State University
In February 2016, Ronald Nowaczyk was appointed president of Frostburg State University. Nowaczyk has experience in advancing public universities in rural areas and in creating partnerships to improve the quality of life in surrounding communities.

**Patrick N. Hogan** ■ Vice Chancellor for Government Relations, USM
Former member of the Maryland House of Delegates and an alumnus of the University of Maryland, College Park, Patrick N. Hogan joined the USM in November 2015. He brought with him a deep knowledge of the legislative process, which he now uses to serve the USM.

**J. Thomas Sadowski** ■ Vice Chancellor for Economic Development, USM
University of Maryland, Baltimore County alumnus J. Thomas Sadowski was appointed vice chancellor in March 2016. This new position was created to expand on the USM’s success as a major driver of the state’s economic development.
My inaugural year as chancellor of the USM was marked by significant progress in our efforts to enhance quality, advance college completion, grow the workforce and the economy, and improve efficiency. I thank the professionals from the USM and the USM Foundation for their efforts in support of these strategic priorities and the students we serve.

I spent much of my first year as chancellor listening, learning, and telling USM stories of success and challenges. Last fall, I crisscrossed the state from the Eastern Shore to western Maryland, traveling more than 900 miles by bus in four days. I also completed a series of visits to each USM institution to meet with senior leadership, faculty, staff, and students. In addition, I gave presentations to dozens of economic development and business groups across the state, underscoring the USM’s critical role in advancing the state’s economy. As a result, my understanding of the state's needs and of how the USM can enhance its role in meeting those needs has grown, as well as my appreciation of the importance of working as a system.

Perhaps the most tangible example of our work together is seen in our partnership with Governor Larry Hogan and legislators in Annapolis, with USM securing a budget increase of $78 million—about 6.3%—over the previous year. We were able to keep the tuition increase for in-state undergraduates to a modest 2% and direct nearly $7 million in funding to support efforts to increase college completion rates. In addition, the General Assembly allocated nearly $308 million for the FY 17 capital budget for critical projects throughout the USM.

Also during the legislative session, we worked diligently to help ensure that Senate Bill (SB) 1052, The University of Maryland Strategic Partnership Act of 2016, would work in the best interests of our students and state. This legislation codifies the strategic collaboration between the University of Maryland, College Park and the University of Maryland, Baltimore that was launched in 2012. As passed, SB 1052 will help ensure a stronger and more impactful relationship between our flagship institution in College Park and our professional schools’ campus in Baltimore, even as the two institutions maintain their separate identities and independent standings.

Looking ahead, I am enthusiastic about the formal launch of USM’s B-Power (Baltimore Power) initiative which uses USM resources to better serve the city of Baltimore. Initially led by two of USM’s urban institutions, Coppin State University and the University of Baltimore, B-Power will ultimately forge a much wider alliance with the USM community and others banking on the future of Baltimore. It will stand as yet another example of the value of “systemness”—working together, leveraging our resources, and using economies of scale—to strengthen our ability to have a broad-based, positive impact.

Throughout my first year, the dedication and hard work of the USM Foundation have stood out. Your accomplishments—managing our institutions’ assets, building a vibrant culture of philanthropy across the USM, advocating for the System, and partnering with member institutions to support and enhance fundraising efforts and celebrate fundraising success—make a profound difference.

On behalf of the Board of Regents, the presidents, and the entire USM community, I extend my heartfelt appreciation and congratulations to the many men and women who make the USM Foundation so effective. I look forward to our continuing partnership in years to come.
Inauguration of the USM’s Fourth Chancellor
Robert L. Caret
November 19, 2015
Columbus Center
Baltimore, Maryland

L-R: USM Presidents Kurt Schmoke, Javier Miyares, Mickey Burnim, Wallace Loh, Thomas Bowling (interim), Jay Perman, Maria Thompson, Timothy Chandler (interim), Juliette Bell, Freeman Hrabowski
The USM Foundation managed 5,355 accounts.

The USM received a System-wide budget increase of $78M (a 6.3% increase over the previous fiscal year).

The USM and the USM Foundation held 11 professional development events for advancement staff across the System.

0 direct investments were made in the Carbon Underground 200 companies.

The USM Foundation joined the Intentional Endowments Network and became a signatory of the United Nations Principles for Responsible Investment.

The Foundation invested on behalf of 22 higher education partners.

741 people attended Chancellor Caret’s inauguration on November 19, 2015 at the Columbus Center in Baltimore.

The Carbon Underground 200 is an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. The list is produced and maintained by Fossil Free Indexes, LLC.

www.usmf.org
900 miles were logged on Chancellor Caret’s Bus Tour in 4 days.

Chancellor Caret visited 20 sites around Maryland to listen to views on how the USM is serving distinct geographic regions in the state.
### ENDOWMENT ASSETS UNDER MANAGEMENT
As of June 30, 2016

<table>
<thead>
<tr>
<th>USMF Funds</th>
<th>[in thousands]</th>
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<tbody>
<tr>
<td>University of Maryland, College Park</td>
<td>$ 90,606</td>
</tr>
<tr>
<td>University of Maryland, Baltimore County</td>
<td>78,101</td>
</tr>
<tr>
<td>University of Maryland Eastern Shore</td>
<td>19,510</td>
</tr>
<tr>
<td>University of Maryland, Baltimore</td>
<td>15,180</td>
</tr>
<tr>
<td>University of Maryland University College</td>
<td>15,170</td>
</tr>
<tr>
<td>University System of Maryland Foundation</td>
<td>13,929</td>
</tr>
<tr>
<td>University of Maryland Center for Environmental Science</td>
<td>2,233</td>
</tr>
<tr>
<td>USMF Trusts and Annuities</td>
<td>6,596</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$ 241,325</strong></td>
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</tbody>
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<table>
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<tr>
<th>Affiliated Organizations</th>
<th>[in thousands]</th>
</tr>
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<tbody>
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<td>University of Maryland College Park Foundation</td>
<td>$ 282,131</td>
</tr>
<tr>
<td>University System of Maryland Common Trust</td>
<td>193,775</td>
</tr>
<tr>
<td>University of Maryland Baltimore Foundation</td>
<td>154,630</td>
</tr>
<tr>
<td>Frostburg State University Foundation</td>
<td>20,042</td>
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<tr>
<td>Frederick Community College Foundation</td>
<td>11,728</td>
</tr>
<tr>
<td>Allegany College of Maryland Foundation</td>
<td>9,858</td>
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<tr>
<td>Hagerstown Community College Foundation</td>
<td>8,614</td>
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<tr>
<td>Coppin State University Development Foundation</td>
<td>8,454</td>
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<tr>
<td>Community College of Baltimore County Foundation</td>
<td>7,816</td>
</tr>
<tr>
<td>Howard Community College Educational Foundation</td>
<td>7,486</td>
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<tr>
<td>Towson University Foundation</td>
<td>7,375</td>
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<tr>
<td>Bowie State University Foundation</td>
<td>5,915</td>
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<tr>
<td>Alumni Association International</td>
<td>4,256</td>
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<tr>
<td>University of Baltimore Foundation</td>
<td>3,332</td>
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<tr>
<td>M-Club</td>
<td>2,124</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$ 727,536</strong></td>
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<tr>
<td><strong>Total Endowment Fund</strong></td>
<td><strong>$ 968,861</strong></td>
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### USM FOUNDATION ENDOWMENT POOL

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>$820</td>
<td>$874</td>
<td>$963</td>
<td>$986</td>
<td>$969</td>
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### ENDOWMENT FUNDS

The USM Foundation manages endowment funds for the benefit of institutions and foundations affiliated with the USM, as well as five Maryland community college foundations. Our investment objective is to generate returns sufficient to meet spending requirements while preserving the purchasing power of the endowment over time. The endowment pool is made up of several thousand individual endowment funds which support scholarships, research, faculty, academic programs, and various special initiatives.

### OPERATING FUNDS

In addition to the endowment portfolio, the Foundation manages operating funds for the benefit of institutions and foundations affiliated with the USM. These are funds that are fully expendable and can be called at any time. Our investment objective for these funds is to maintain a high level of liquidity with a very low risk profile. Operating funds support scholarships, research, faculty, academic programs, and various special initiatives, just like endowment funds. The key difference is that endowment funds are meant to exist in perpetuity, while operating funds can be fully expended.
INVESTMENT COMMITTEE

The Investment Committee, made up of volunteers from a wide range of business and investment backgrounds, is responsible for the oversight of both the endowment and operating portfolios. The committee members meet on a quarterly basis, but are in frequent communication with the staff and with each other between meetings. The primary role of the Investment Committee is to establish investment objectives and set asset allocations.

David C. Saunders, Chair
Co-Founder and CEO
K2 Advisors, LLC

Joseph R. Hardiman, Vice Chair
Private Investor

Larry D. Boggs
Managing Director—Investment Officer
Wells Fargo Advisors, LLC

Charles W. Cole, Jr.
Retired Chairman and CEO
Legg Mason Trust

V. Raymond Ferrara
President and CEO
ProVise Management Group, LLC

Eric S. Francis
Chairman and CEO
The CBMC Group

Joseph B. Gildenhorn
Founding Partner
The JBG Companies

Viju Joseph
Chief Risk Officer
Weiss Multi-Strategy Advisers

Kyle Prechtl Legg
Retired CEO
Legg Mason Capital Management

Robert Milkovich
CEO
First Potomac Realty Trust

Paul H. Mullan
Retired Vice Chairman and Strategic Partner
Charterhouse Group International, Inc.

Bruce Richards
CEO and Co-Managing Partner
Marathon Asset Management, LP

Thomas (Tim) Schweizer, Jr.
President
Brown Advisory Securities

Dennis R. Wraase
Retired Chairman and CEO
Pepco Holdings, Inc.

INVESTMENT STAFF

Samuel N. Gallo
Chief Investment Officer

Kevin T. Dalmut
Director of Private Market Investments

Chris Ingram
Senior Sustainability and Investment Analyst

Abby Coutant
Operations Manager

Carrie Browne
Board Relations Associate

GOVERNANCE STRUCTURE

The USM Foundation has instituted a streamlined investment process that allows its staff, Investment Committee and two Strategic Investment Managers (SIMs) to work collaboratively to make investments between official meetings of the committee. This model, which has been dubbed the “Maryland Model,” allows the investment staff to leverage the expertise of the committee as well as the extensive resources of the SIMs, while also increasing the flexibility for staff to react quickly to market conditions.

ENDOWMENT FUND PERFORMANCE

In the fiscal year ending June 30, 2016, the endowment portfolio decreased 1.8%. Despite this absolute performance, we are pleased by the endowment’s relative performance to its portfolio benchmark, which declined 5.4%. We consider the fiscal year results a success, as we preserved capital during a challenging period, outperforming our benchmark by roughly +360 basis points. Funds under management totaled $969 million as of June 30, 2016.

“UMCES depends on the USM for several critical services including prospect research, generation of reports, professional development and occasionally advice on fundraising strategies and key relationships.”

Vice President of Institutional Advancement at the University of Maryland Center for Environmental Science, David Balcom
INVESTMENT STRATEGY

Our portfolio positioning is premised on risk tolerances and return objectives of a traditional university endowment. Central to this concept is the idea that capital is not immediately needed; therefore, a moderate portion of our portfolio is invested in opportunities that materialize over longer timeframes. By locking up our capital, we aim to capture an extra risk premium, known as the liquidity premium. This premium enhances the portfolio’s return, while also reducing its longer-term risk profile.

However, to balance the portfolio’s need for current income, we invest a material amount of capital in shorter duration, liquid investments. In fact, approximately 67% of our investments can be converted to cash within less than one year, with a portion of these assets being exchange-listed and traded. Thus, staff is able to invest in attractive opportunities, when presented.

Endowment funds are invested with a long-term perspective, and performance of the portfolio is assessed over varied market cycles. These cycles can persist over several years, irrespective of the conclusion of a calendar or fiscal year. We purposely design our portfolio for long-term diversification among factors such as geographic, strategy, sector, liquidity, and instrument or investment vehicle type. While equity risk is a large component of our asset allocation, the portfolio is not designed to match U.S. equity market performance. Rather, the portfolio is constructed to provide less volatile year-over-year returns, capturing upside market potential while protecting funds from downside losses.

The portfolio can be divided into four broad asset classes: (1) safe assets, (2) public risk assets, (3) private risk assets, and (4) portfolio overlay. In the pie graph below, we have further detailed the composition of these allocations by policy target; where the green and purple slices represent liquid asset classes, and the yellow slice represents the illiquid portion or private risk assets. We have outlined each of these strategies in the paragraphs that follow.

“`The Meyerhoff Scholars Program blessed my family so that we didn’t have to take out loans, and my parents and I didn’t have to take on additional jobs for my education.”`

Associate Professor of Mechanical Engineering at Clemson University and member of the first class of Meyerhoff Scholars Program students at UMBC, Oliver Myers
SAFE ASSETS

Safe assets are defined as investments with little-to-no principal risk. The current environment aside, we consider these to be U.S. Government securities, cash-enhanced investment products, and cash. This portion of the portfolio is in place to provide capital preservation and stability to our returns during volatile periods as well as facilitate our spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress. While this allocation will be somewhat small, it is a very important portion of our overall asset mix.

OPERATING FUND PERFORMANCE

Funds under management in the operating portfolio totaled $188 million as of June 30, 2016. Operating funds are designed for current use, as our account holders expect to be able to withdraw their full amounts at any given time. As a result, the risk tolerance on an individual account level is very low.

In the fiscal year ending June 30, 2016, the operating fund decreased 0.5%. Its policy benchmark declined 0.3%. Despite its absolute performance, the operating fund responded as anticipated to market conditions and a generally low-yield environment. We consider the fiscal year results a success, as we preserved capital during a challenging period.

Similar to the endowment fund, operating fund investments are categorized as safe assets, public risk assets, and portfolio overlay. Since investments are more liquid in nature, there is no private risk asset category within the operating portfolio.

PUBLIC RISK ASSETS

Public risk assets define our liquid investments. These investments have one common theme – they are generally traded in liquid markets/exchanges. Within this section of the portfolio, we seek a number of uncorrelated objectives across equity and credit managers and instruments.

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 – all the while muting general equity market volatility when possible.

PRIVATE RISK ASSETS

Private risk assets are the illiquid portion of our portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the endowment's capital, we have the ability to enter into illiquid investments that may take years for profit realization. While we sacrifice the use of our capital during this timeframe, we hold these investments to higher performance hurdles, as we expect to earn a significant return premium over public market equivalent investments.

Thus, similar to public risk assets, private risk asset investments will also have orientations towards growth, value, momentum, inflation protection, and/or catalyst-driven events. Investments will vary in structure as well as duration, all adding up to a broadly diversified portfolio.

PORTFOLIO OVERLAY

The portfolio overlay is another line of defense for our capital. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. While in most cases this is achieved by our investment managers, there are times when staff needs to protect the aggregate portfolio. Allocating capital to this asset class will be on an as-needed, opportunistic basis. That is why its target allocation is set to zero percent.
Financial Highlights

AUDIT COMMITTEE REPORT

The Audit Committee of the University System of Maryland Foundation, Inc. (the Foundation) has reviewed and discussed with the Foundation's management and BDO USA, LLP the audited financial statements of the Foundation as of and for the year ended June 30, 2016, to be included in the Foundation's annual report.

The Audit Committee has also discussed with BDO USA, LLP the matters required to be discussed pursuant to applicable Statements on Auditing Standards adopted by the American Institute of Certified Public Accountants, which matters include, among other things, matters related to the conduct of the audit of the Foundation's financial statements.

The Audit Committee has received and reviewed the letter from BDO USA, LLP required by Independence Standards Board Standard No.1 (“Independence Discussions with Audit Committees”), and has discussed with BDO USA, LLP its independence from the Foundation.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors of the USM Foundation that the audited financial statements be included in the Foundation's annual report.

SUBMITTED BY THE AUDIT COMMITTEE

J. Mitchell Neitzey, Chair
Michael E. Meehan, Vice Chair
Kenneth L. Bedingfield
Robert A. Bedingfield
Walter R. Fatzinger
Joseph B. Gildenhorn
Albert E. Girod
Arthur S. Mehlman
Neil Moskowitz
Paul H. Mullan
Clolita M. Vitale
John C. Weiss
Dennis R. Wraase
Sam A. Zappas

FINANCIAL HIGHLIGHTS

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<thead>
<tr>
<th>(in millions)</th>
<th>June 2016</th>
<th>June 2015</th>
<th>% of Change</th>
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<tr>
<td>Total Assets</td>
<td>$ 1,187.8</td>
<td>$ 1,207.7</td>
<td>(1.6)%</td>
</tr>
<tr>
<td>Net Assets</td>
<td>$ 315.2</td>
<td>$ 324.4</td>
<td>(2.8)%</td>
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<tr>
<td>Total Revenues</td>
<td>$ 22.4</td>
<td>$ 47.8</td>
<td>(53.1)%</td>
</tr>
<tr>
<td>Program &amp; Scholarship Support</td>
<td>$ 23.2</td>
<td>$ 25.1</td>
<td>(7.6)%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$ 8.3</td>
<td>$ 10.2</td>
<td>(18.6)%</td>
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EXPENSES

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<tr>
<th>(in millions)</th>
<th>FY16</th>
<th>% of Change</th>
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<tr>
<td>Program Support</td>
<td>$ 17.5</td>
<td>55.4%</td>
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<tr>
<td>General &amp; Administrative</td>
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<td>18.3%</td>
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<tr>
<td>Scholarship Support</td>
<td>$ 5.8</td>
<td>18.3%</td>
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<tr>
<td>Fundraising</td>
<td>$ 2.5</td>
<td>8.0%</td>
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<tr>
<td>TOTAL</td>
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ASSETS

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<tr>
<th>(in millions)</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
<th>FY13</th>
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</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$ 1,187.8</td>
<td>$ 1,207.7</td>
<td>$ 1,170.5</td>
<td>$ 1,085.6</td>
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REVENUES

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<th>(in millions)</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
<th>FY13</th>
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<tbody>
<tr>
<td>Scholarships</td>
<td>$ 22.4</td>
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<td></td>
<td></td>
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<tr>
<td>General &amp; Administrative</td>
<td></td>
<td>$ 47.8</td>
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<td></td>
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<tr>
<td>Total</td>
<td>$ 53.9</td>
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<tr>
<td>Fundraising</td>
<td>$ 41.9</td>
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INVESTMENTS HELD FOR OTHER FOUNDATIONS

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
<th>FY13</th>
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<tbody>
<tr>
<td>Total</td>
<td>$ 862.3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Scholarships</td>
<td>$ 849.1</td>
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<tr>
<td>General &amp; Administrative</td>
<td>$ 17.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 719.5</td>
<td></td>
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</table>
Management's Financial Responsibility

The Foundation’s management assumes responsibility for the fair presentation of the consolidated financial statements, prepared in accordance with generally accepted accounting principles (GAAP), and has full responsibility for their integrity and accuracy.

Management, in concert with the Board of Directors, established and maintains a strong ethical climate as we are committed to ensuring that we properly account for those funds we hold on behalf of donors and the institutions we serve. In addition, we believe the system of internal control in place provides reasonable assurance as to the integrity and the accuracy of those financial statements and the other activities performed.

Management recognizes its fiduciary responsibility for the oversight of funds, contributed by donors for the benefit of the institutions of the University System of Maryland, under its control and investment management.

Our internal audit firm, Johnson and Lambert, maintains oversight over key areas and reports on a regular basis to management and the Audit Committee. BDO USA, LLP, our independent auditor, reports directly to the Audit Committee.

Leonard R. Raley, President and CEO

Independent Auditor's Report

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

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, 2016 and 2015, 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.

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, 2016 and 2015, 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.

September 15, 2016

BDO USA, LLP
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### June 30, 2016 and 2015 (in thousands)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>150</td>
<td>118</td>
</tr>
<tr>
<td>Receivable from investments sales</td>
<td>—</td>
<td>30</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>136</td>
<td>1,153</td>
</tr>
<tr>
<td>Contributions receivable — current portion</td>
<td>5,576</td>
<td>4,696</td>
</tr>
<tr>
<td>Other current assets</td>
<td>264</td>
<td>680</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>6,126</td>
<td>6,677</td>
</tr>
<tr>
<td><strong>INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment</td>
<td>241,363</td>
<td>246,894</td>
</tr>
<tr>
<td>Operating</td>
<td>53,350</td>
<td>55,794</td>
</tr>
<tr>
<td>Held for other foundations</td>
<td>862,291</td>
<td>873,103</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>1,157,004</td>
<td>1,175,791</td>
</tr>
<tr>
<td><strong>OTHER ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions receivable — long term portion</td>
<td>9,918</td>
<td>10,533</td>
</tr>
<tr>
<td>Contributions receivable from remainder trusts</td>
<td>975</td>
<td>1,007</td>
</tr>
<tr>
<td>Angus breeding herd, trademark, logo, records, and data bank</td>
<td>2,102</td>
<td>2,187</td>
</tr>
<tr>
<td>Real and personal property, net</td>
<td>11,201</td>
<td>11,117</td>
</tr>
<tr>
<td>Other assets</td>
<td>445</td>
<td>432</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>24,641</td>
<td>25,276</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$ 1,187,771</td>
<td>$ 1,207,744</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$3,475</td>
<td>$3,055</td>
</tr>
<tr>
<td>Deferred income</td>
<td>2,995</td>
<td>3,320</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>6,470</td>
<td>6,375</td>
</tr>
<tr>
<td><strong>OTHER LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables under split-interest agreements</td>
<td>3,358</td>
<td>3,372</td>
</tr>
<tr>
<td>Due to other foundations and affiliates</td>
<td>862,734</td>
<td>873,581</td>
</tr>
<tr>
<td><strong>Total Other Liabilities</strong></td>
<td>866,092</td>
<td>876,953</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>872,562</td>
<td>883,328</td>
</tr>
</tbody>
</table>

| **COMMITMENTS AND CONTINGENCIES** |            |            |
| **NET ASSETS**                   |            |            |
| Unrestricted                     | 60,765     | 64,837     |
| Temporarily restricted            | 74,133     | 72,194     |
| Permanently restricted            | 180,311    | 187,385    |
| **Total Net Assets**             | 315,209    | 324,416    |

| **TOTAL LIABILITIES AND NET ASSETS** | $1,187,771 | $1,207,744 |

See accompanying notes to consolidated financial statements.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2016 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and grants</td>
<td>$ 2,227</td>
<td>$ 14,726</td>
<td>$ 3,487</td>
<td>$ 20,440</td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>949</td>
<td>2,905</td>
<td>—</td>
<td>3,854</td>
</tr>
<tr>
<td>Other program income</td>
<td>231</td>
<td>—</td>
<td>1</td>
<td>232</td>
</tr>
<tr>
<td>Courses and conferences</td>
<td>1,083</td>
<td>—</td>
<td>—</td>
<td>1,083</td>
</tr>
<tr>
<td>Sales and services</td>
<td>5,420</td>
<td>—</td>
<td>—</td>
<td>5,420</td>
</tr>
<tr>
<td>Change in value of split-interest agreements</td>
<td>—</td>
<td>58</td>
<td>(55)</td>
<td>3</td>
</tr>
<tr>
<td>Realized and unrealized gains on investments, net</td>
<td>(1,761)</td>
<td>3,596</td>
<td>(10,486)</td>
<td>(8,651)</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>19,346</td>
<td>(19,346)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>27,495</td>
<td>1,939</td>
<td>(7,053)</td>
<td>22,381</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarship, faculty, and department support</td>
<td>23,243</td>
<td>—</td>
<td>—</td>
<td>23,243</td>
</tr>
<tr>
<td><strong>Total program services</strong></td>
<td>23,243</td>
<td>—</td>
<td>—</td>
<td>23,243</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>5,794</td>
<td>—</td>
<td>—</td>
<td>5,794</td>
</tr>
<tr>
<td>Fundraising</td>
<td>2,528</td>
<td>—</td>
<td>—</td>
<td>2,528</td>
</tr>
<tr>
<td><strong>Total supporting services</strong></td>
<td>8,322</td>
<td>—</td>
<td>—</td>
<td>8,322</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>31,565</td>
<td>—</td>
<td>—</td>
<td>31,565</td>
</tr>
<tr>
<td>Change in net assets before transfers</td>
<td>(4,070)</td>
<td>1,939</td>
<td>(7,053)</td>
<td>(9,184)</td>
</tr>
<tr>
<td>Transfers to System affiliated Foundations</td>
<td>(2)</td>
<td>—</td>
<td>(21)</td>
<td>(23)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(4,072)</td>
<td>1,939</td>
<td>(7,074)</td>
<td>(9,207)</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>64,837</td>
<td>72,194</td>
<td>187,385</td>
<td>324,416</td>
</tr>
<tr>
<td><strong>NET ASSETS, END OF YEAR</strong></td>
<td><strong>$ 60,765</strong></td>
<td><strong>$ 74,133</strong></td>
<td><strong>$ 180,311</strong></td>
<td><strong>$ 315,209</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2015 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and grants</td>
<td>$ 1,595</td>
<td>$ 13,921</td>
<td>$ 15,329</td>
<td>$ 30,845</td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>730</td>
<td>2,377</td>
<td>(23)</td>
<td>3,084</td>
</tr>
<tr>
<td>Other program income</td>
<td>843</td>
<td></td>
<td></td>
<td>843</td>
</tr>
<tr>
<td>Courses and conferences</td>
<td>951</td>
<td></td>
<td></td>
<td>951</td>
</tr>
<tr>
<td>Sales and services</td>
<td>4,779</td>
<td></td>
<td></td>
<td>4,779</td>
</tr>
<tr>
<td>Change in value of split-interest agreements</td>
<td>—</td>
<td>(12)</td>
<td>(73)</td>
<td>(85)</td>
</tr>
<tr>
<td>Realized and unrealized gains on investments, net</td>
<td>1,141</td>
<td>6,124</td>
<td>77</td>
<td>7,342</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>22,384</td>
<td>(22,384)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>32,423</td>
<td>26</td>
<td>15,310</td>
<td>47,759</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarship, faculty, and department support</td>
<td>25,051</td>
<td>—</td>
<td>—</td>
<td>25,051</td>
</tr>
<tr>
<td>Total program services</td>
<td>25,051</td>
<td>—</td>
<td>—</td>
<td>25,051</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>6,320</td>
<td>—</td>
<td>—</td>
<td>6,320</td>
</tr>
<tr>
<td>Fundraising</td>
<td>3,927</td>
<td>—</td>
<td>—</td>
<td>3,927</td>
</tr>
<tr>
<td>Total supporting services</td>
<td>10,247</td>
<td>—</td>
<td>—</td>
<td>10,247</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>35,298</td>
<td>—</td>
<td>—</td>
<td>35,298</td>
</tr>
<tr>
<td>Change in net assets before transfers</td>
<td>(2,875)</td>
<td>26</td>
<td>15,310</td>
<td>12,461</td>
</tr>
<tr>
<td>Transfers to System affiliated Foundations</td>
<td>(7)</td>
<td>—</td>
<td>(18)</td>
<td>(25)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(2,882)</td>
<td>26</td>
<td>15,292</td>
<td>12,436</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>67,719</td>
<td>72,168</td>
<td>172,093</td>
<td>311,980</td>
</tr>
<tr>
<td><strong>NET ASSETS, END OF YEAR</strong></td>
<td><strong>$ 64,837</strong></td>
<td><strong>$ 72,194</strong></td>
<td><strong>$ 187,385</strong></td>
<td><strong>$ 324,416</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended June 30, 2016 and 2015 (in thousands)

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$(9,207)</td>
<td>$12,436</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized and unrealized gains on investments</td>
<td>8,666</td>
<td>(7,321)</td>
</tr>
<tr>
<td>Realized gains on investments for split interest agreements</td>
<td>(15)</td>
<td>(21)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>135</td>
<td>208</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>174</td>
<td>672</td>
</tr>
<tr>
<td>Contributions restricted for long-term investment</td>
<td>(6,708)</td>
<td>(6,889)</td>
</tr>
<tr>
<td>(Increase) decrease in assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(32)</td>
<td>(18)</td>
</tr>
<tr>
<td>Receivables from investments sales</td>
<td>30</td>
<td>1,668</td>
</tr>
<tr>
<td>Prepaid investment purchase</td>
<td>—</td>
<td>20,000</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>1,017</td>
<td>214</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>(439)</td>
<td>(8,633)</td>
</tr>
<tr>
<td>Other assets</td>
<td>501</td>
<td>(388)</td>
</tr>
<tr>
<td>Contributions receivable from remainder trusts</td>
<td>32</td>
<td>55</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>420</td>
<td>492</td>
</tr>
<tr>
<td>Deferred income</td>
<td>(325)</td>
<td>642</td>
</tr>
<tr>
<td>Payables under split-interest agreements</td>
<td>(14)</td>
<td>(275)</td>
</tr>
<tr>
<td>Due to other foundations and affiliates</td>
<td>(10,847)</td>
<td>23,957</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>(16,612)</strong></td>
<td><strong>36,799</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended June 30, 2016 and 2015 (in thousands)

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of investments</td>
<td>(105,539)</td>
<td>(301,349)</td>
</tr>
<tr>
<td>Sales or distribution of investments</td>
<td>115,675</td>
<td>257,586</td>
</tr>
<tr>
<td>Change in cash surrender value of life insurance</td>
<td>(13)</td>
<td>(5)</td>
</tr>
<tr>
<td>Purchases of real and personal property</td>
<td>(219)</td>
<td>(135)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>9,904</strong></td>
<td><strong>(43,903)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from contributions restricted for long-term investment</td>
<td>6,708</td>
<td>6,889</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td><strong>6,708</strong></td>
<td><strong>6,889</strong></td>
</tr>
<tr>
<td>(Decrease) increase in cash and cash equivalents</td>
<td>—</td>
<td>(215)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH AND CASH EQUIVALENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
</tr>
<tr>
<td>End of year</td>
</tr>
</tbody>
</table>

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”). 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 the University of Maryland Medical System (“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 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.

The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). Accounting Standards Codification (ASC) 958, “Not-for-Profit Entities.” Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 estate gifts. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2016 and 2015. The Foundation’s policy is to write-off all receivables that are deemed to be uncollectible.

Contributions Receivable

The contributions receivable balance is based on management’s best estimate of the amounts expected to be collected. 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 the straight-line method over the estimated useful lives of the assets which are five years. Depreciation expense totaled $0.1 million and $0.2 million for the years ended June 30, 2016 and 2015, respectively. 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 and $0.2 million for the years ended June 30, 2016 and 2015, respectively. Asset and accumulated depreciation accounts are
relieved when an asset is sold or otherwise disposed. Accumulated
depreciation totaled $2.3 million and $2.2 million for the years ended
June 30, 2016 and 2015, 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 and $2.6 million for the years ended June 30,
2016 and 2015, respectively, 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, 2016
and 2015, were as follows (in thousands):

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allegany College of Maryland Foundation</td>
<td>$9,858</td>
<td>$10,276</td>
</tr>
<tr>
<td>Alumni Association International</td>
<td>4,256</td>
<td>4,487</td>
</tr>
<tr>
<td>Bowie State University Foundation</td>
<td>6,317</td>
<td>6,158</td>
</tr>
<tr>
<td>Community College of Baltimore County Foundation</td>
<td>7,816</td>
<td>7,614</td>
</tr>
<tr>
<td>Coppin State University Development Foundation</td>
<td>8,454</td>
<td>8,862</td>
</tr>
<tr>
<td>Frederick Community College Foundation</td>
<td>11,729</td>
<td>12,089</td>
</tr>
<tr>
<td>Frostburg State University Foundation</td>
<td>20,042</td>
<td>18,519</td>
</tr>
<tr>
<td>Hagerstown Community College Foundation</td>
<td>8,614</td>
<td>8,489</td>
</tr>
<tr>
<td>Howard Community College Educational Foundation</td>
<td>7,485</td>
<td>7,213</td>
</tr>
<tr>
<td>M Club</td>
<td>2,125</td>
<td>2,230</td>
</tr>
<tr>
<td>Towson University Foundation</td>
<td>7,375</td>
<td>7,547</td>
</tr>
<tr>
<td>UMB Foundation</td>
<td>211,448</td>
<td>206,698</td>
</tr>
<tr>
<td>UMCP Foundation</td>
<td>309,236</td>
<td>310,661</td>
</tr>
<tr>
<td>University of Baltimore Foundation</td>
<td>3,332</td>
<td>3,754</td>
</tr>
<tr>
<td>University System of Maryland Common Trust</td>
<td>244,647</td>
<td>258,984</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$862,734</strong></td>
<td><strong>$873,581</strong></td>
</tr>
</tbody>
</table>

Classifications of Net Assets
The Foundation’s net assets have been grouped into the following
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%.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  |  June 30, 2016 and 2015

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, 2016 and 2015 which does not include $15.1 million and $16.1 million in fees paid to the investment managers relating to investments held for other foundations for fiscal years ending June 30, 2016 and 2015, respectively. See section “Due to Other Foundations and Affiliates” for more information.

<table>
<thead>
<tr>
<th>2016 (in thousands)</th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realized and unrealized gains (losses) on investments, gross of fees</td>
<td>$ (1,316)</td>
<td>$ 4,073</td>
<td>$ (6,368)</td>
<td>$ (3,611)</td>
</tr>
<tr>
<td>Investment fees, not including those relating to managed funds which are included in permanently restricted</td>
<td>(445)</td>
<td>(477)</td>
<td>(4,118)</td>
<td>(5,040)</td>
</tr>
<tr>
<td>Realized and unrealized gains (losses) on investments, net of fees as recorded in the consolidated statements of activities and changes in net assets</td>
<td>$ (1,761)</td>
<td>$ 3,596</td>
<td>$ (10,486)</td>
<td>$ (8,651)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2015 (in thousands)</th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realized and unrealized gains (losses) on investments, gross of fees</td>
<td>$ 1,553</td>
<td>$ 6,623</td>
<td>$ 4,549</td>
<td>$ 12,725</td>
</tr>
<tr>
<td>Investment fees, not including those relating to managed funds which are included in permanently restricted</td>
<td>(412)</td>
<td>(499)</td>
<td>(4,472)</td>
<td>(5,383)</td>
</tr>
<tr>
<td>Realized and unrealized gains (losses) on investments, net of fees as recorded in the consolidated statements of activities and changes in net assets</td>
<td>$ 1,141</td>
<td>$ 6,124</td>
<td>$ 77</td>
<td>$ 7,342</td>
</tr>
</tbody>
</table>

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 $1.3 million and $1.2 million for the years ended June 30, 2016 and 2015, 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, 2016 and 2015; therefore, no provision for income taxes had been made.

Income taxes are accounted for under the asset and liability method in accordance with the Accounting for Income Taxes standards issued by the FASB. 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 year ended June 30, 2016, the USMF Corporation generated an immaterial amount of taxable income and a corresponding tax liability was created. The USMF Corporation’s tax liability was considered immaterial and therefore was not recorded in the consolidated financial statements. For the year ended June 30, 2015, the USMF Corporation generated an immaterial amount of taxable income. No provision was recorded due to the recognition of net operating loss carryforwards not previously benefitted. For the year ended June 30, 2015, no income tax benefit was recorded due to the uncertainty of realization of the net operating loss carryforward and any future benefit realized is considered immaterial to 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | June 30, 2016 and 2015

financial statements. No asset or liability has been recorded as of June 30, 2016 and 2015 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, 2013.

Reclassifications
Certain amounts presented in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation, with no effect on the change in net assets, as previously reported.

Recently Adopted Authoritative Guidance
In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value (NAV) per share practical expedient under ASC 820. ASU 2015-07 is effective for fiscal year-ends beginning after December 15, 2016 with early adoption permitted. The Foundation elected to early adopt this new guidance and the updated disclosures are included in the accompanying consolidated financial statement disclosures (See Note 3). The adoption of this guidance had no impact on the Foundation’s consolidated financial statements, other than as described in Note 3.

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 August 2014, the FASB issued 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. Presently the Foundation does not anticipate that the adoption of this update will have a material effect on the Foundation’s 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 position 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) and Health Care Entities (Topic 954) – 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 expenses, and (g) modifying other financial statement reporting require-ments 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 their 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, and verified, 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 measure-ment. 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 a limited partnerships, which are stated at net asset value (NAV) or its equivalent. The Foundation uses the NAV

www.usmf.org 21
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. Due to the early adoption of FASB ASU 2015-07 during the year ended June 30, 2016 (see Note 2), 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, 2016 and 2015, by the fair value hierarchy defined above (in thousands):

<table>
<thead>
<tr>
<th>June 30, 2016 (in thousands)</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Investments Reported at NAV*</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money-market funds and short-term investments (1)</td>
<td>$37,702</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$37,702</td>
</tr>
<tr>
<td>Corporate and municipal bonds (2)</td>
<td>—</td>
<td>11,376</td>
<td>—</td>
<td>—</td>
<td>11,376</td>
</tr>
<tr>
<td>Equities and mutual funds (3)</td>
<td>199,599</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>199,599</td>
</tr>
<tr>
<td>U.S. Treasury notes and bonds (2)</td>
<td>—</td>
<td>5,851</td>
<td>—</td>
<td>—</td>
<td>5,851</td>
</tr>
<tr>
<td>U.S. Agency Securities (2)</td>
<td>—</td>
<td>474</td>
<td>—</td>
<td>—</td>
<td>474</td>
</tr>
<tr>
<td>Collateralized mortgage obligations/assets and mortgage backed securities (2)</td>
<td>—</td>
<td>8</td>
<td>—</td>
<td>—</td>
<td>8</td>
</tr>
<tr>
<td>Absolute return (4)</td>
<td>—</td>
<td>—</td>
<td>115,462</td>
<td>173,404</td>
<td>288,866</td>
</tr>
<tr>
<td>Long/short equity hedge funds (5)</td>
<td>—</td>
<td>—</td>
<td>126,864</td>
<td>152,540</td>
<td>279,404</td>
</tr>
<tr>
<td>Private capital (6)</td>
<td>—</td>
<td>—</td>
<td>278,480</td>
<td>55,244</td>
<td>333,724</td>
</tr>
<tr>
<td>Total</td>
<td>$237,301</td>
<td>$17,709</td>
<td>$520,806</td>
<td>$381,188</td>
<td>$1,157,004</td>
</tr>
</tbody>
</table>

*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.

<table>
<thead>
<tr>
<th>June 30, 2015 (in thousands)</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Investments Reported at NAV*</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money-market funds and short-term investments (1)</td>
<td>$42,650</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$42,650</td>
</tr>
<tr>
<td>Corporate and municipal bonds (2)</td>
<td>—</td>
<td>13,023</td>
<td>—</td>
<td>—</td>
<td>13,023</td>
</tr>
<tr>
<td>Equities and mutual funds (3)</td>
<td>219,553</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>219,553</td>
</tr>
<tr>
<td>U.S. Treasury notes and bonds (2)</td>
<td>—</td>
<td>5,320</td>
<td>—</td>
<td>—</td>
<td>5,320</td>
</tr>
<tr>
<td>U.S. Agency Securities (2)</td>
<td>—</td>
<td>867</td>
<td>—</td>
<td>—</td>
<td>867</td>
</tr>
<tr>
<td>Collateralized mortgage obligations/assets and mortgage backed securities (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Absolute return (4)</td>
<td>—</td>
<td>—</td>
<td>109,530</td>
<td>178,349</td>
<td>288,349</td>
</tr>
<tr>
<td>Long/short equity hedge funds (5)</td>
<td>—</td>
<td>—</td>
<td>151,380</td>
<td>168,563</td>
<td>319,943</td>
</tr>
<tr>
<td>Private capital (6)</td>
<td>—</td>
<td>—</td>
<td>251,398</td>
<td>34,688</td>
<td>286,086</td>
</tr>
<tr>
<td>Total</td>
<td>$262,203</td>
<td>$19,210</td>
<td>$512,308</td>
<td>$382,070</td>
<td>$1,175,791</td>
</tr>
</tbody>
</table>

*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 Level 1, 2 or 3 classification for the years ended June 30, 2016 and 2015.
The fair values of Level 3 investments have been estimated by management based on 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 owner's share 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, 2016 and 2015.

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 $1.5 million and $11.0 million for years ended June 30, 2016 and 2015, respectively. Management will also adjust for known performance adjustments for alternative investments that hold publicly traded securities. Performance adjustments ranged from -4.3% to 3.01% for those investments on a one month lag. No performance adjustments are made to investments on a quarter lag given the unobservability of 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):

<table>
<thead>
<tr>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value recorded at June 30, 2014</td>
</tr>
<tr>
<td>Realized and unrealized losses, net</td>
</tr>
<tr>
<td>Purchase of portfolio investments</td>
</tr>
<tr>
<td>Proceeds from sale or distribution of investments</td>
</tr>
<tr>
<td>Fair value recorded at June 30, 2015</td>
</tr>
<tr>
<td>Realized and unrealized losses, net</td>
</tr>
<tr>
<td>Purchase of portfolio investments</td>
</tr>
<tr>
<td>Proceeds from sale or distribution of investments</td>
</tr>
<tr>
<td>Fair value recorded at June 30, 2016</td>
</tr>
</tbody>
</table>
Realized and unrealized 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 change in unrealized gains for Level 3 investments was $9.4 million for the year ended June 30, 2016 and the total change in unrealized losses for Level 3 investments was $3.2 million for the year ended June 30, 2015.

**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):

<table>
<thead>
<tr>
<th>Investments</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money-market funds and short-term investments</td>
<td>$ 37,702</td>
<td>$ 37,702</td>
</tr>
<tr>
<td>Corporate and municipal bonds</td>
<td>11,376</td>
<td>11,454</td>
</tr>
<tr>
<td>Equities and mutual funds</td>
<td>199,599</td>
<td>192,852</td>
</tr>
<tr>
<td>U.S. Treasury notes and bonds</td>
<td>5,851</td>
<td>5,783</td>
</tr>
<tr>
<td>U.S. Agency Securities</td>
<td>474</td>
<td>477</td>
</tr>
<tr>
<td>Collateralized mortgage obligations/asset and mortgage backed securities</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Absolute return</td>
<td>288,866</td>
<td>203,138</td>
</tr>
<tr>
<td>Long/short equity hedge funds</td>
<td>279,404</td>
<td>198,570</td>
</tr>
<tr>
<td>Private capital</td>
<td>333,724</td>
<td>402,367</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,157,004</strong></td>
<td><strong>$ 1,052,351</strong></td>
</tr>
</tbody>
</table>

Of the fair value of $1.2 billion at both June 30, 2016 and 2015, $968.9 million and $985.1 million, respectively, is invested in the endowment pool and $187.8 million and $189.9 million, respectively, is invested in the operating portfolio. There are $0.3 million and $1.0 million in investments not invested with the pools at June 30, 2016 and 2015, respectively.

The Foundation committed $891.0 million and $816.0 million to private capital as of June 30, 2016 and 2015, respectively, of which $586.0 million and $519.0 million has been called as of June 30, 2016 and 2015, 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.

5. **Contributions Receivable**

As of June 30, 2016 and 2015, the Foundation’s contributors had unconditionally promised to give approximately $16.6 million and $16.4 million, respectively. Promised contributions are due as follows at June 30 (in thousands):
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, 2016 and 2015. In addition, the Foundation is owner and beneficiary of policies with face amounts of $771,000 (in dollars) and $755,000 (in dollars) and cash surrender values of approximately $262,000 (in dollars) and $249,000 (in dollars) at June 30, 2016 and 2015, 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, 2016 and 2015. These intentions relate primarily to bequests and revocable trusts, which at the contributor’s discretion may be changed and/or amended.

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 endowment 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):

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donor-Restricted Endowment Funds</td>
<td>$12,706</td>
<td>$19,137</td>
<td>$180,311</td>
<td>$212,154</td>
</tr>
<tr>
<td>Board-Designated Endowment Funds</td>
<td>$5,943</td>
<td>2,514</td>
<td>—</td>
<td>$8,457</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,649</strong></td>
<td><strong>$21,651</strong></td>
<td><strong>$180,311</strong></td>
<td><strong>$220,611</strong></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donor-Restricted Endowment Funds</td>
<td>$13,257</td>
<td>$19,431</td>
<td>$187,385</td>
<td>$220,073</td>
</tr>
<tr>
<td>Board-Designated Endowment Funds</td>
<td>$6,264</td>
<td>2,008</td>
<td>—</td>
<td>$8,272</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19,521</strong></td>
<td><strong>$21,439</strong></td>
<td><strong>$187,385</strong></td>
<td><strong>$228,345</strong></td>
</tr>
</tbody>
</table>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | June 30, 2016 and 2015

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

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets, beginning of the year</td>
<td>$ 19,521</td>
<td>$ 21,439</td>
<td>$ 187,385</td>
<td>$ 228,345</td>
</tr>
<tr>
<td>Investment return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>433</td>
<td>281</td>
<td>(55)</td>
<td>659</td>
</tr>
<tr>
<td>Net depreciation (realized and unrealized)</td>
<td>(697)</td>
<td>(654)</td>
<td>(10,486)</td>
<td>(11,837)</td>
</tr>
<tr>
<td>Total investment return</td>
<td>(264)</td>
<td>(373)</td>
<td>(10,541)</td>
<td>(11,178)</td>
</tr>
<tr>
<td>Contributions</td>
<td>143</td>
<td>980</td>
<td>3,487</td>
<td>4,610</td>
</tr>
<tr>
<td>Other program income</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(749)</td>
<td>(395)</td>
<td>—</td>
<td>(1,144)</td>
</tr>
<tr>
<td>Transfers to System affiliated Foundations</td>
<td>(2)</td>
<td>—</td>
<td>(21)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Endowment net assets, end of year</strong></td>
<td>$ 18,649</td>
<td>$ 21,651</td>
<td>$ 180,311</td>
<td>$ 220,611</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets, beginning of the year</td>
<td>$ 19,527</td>
<td>$ 20,573</td>
<td>$ 172,093</td>
<td>$ 212,193</td>
</tr>
<tr>
<td>Investment return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>252</td>
<td>223</td>
<td>(96)</td>
<td>379</td>
</tr>
<tr>
<td>Net appreciation (realized and unrealized)</td>
<td>579</td>
<td>584</td>
<td>77</td>
<td>1,240</td>
</tr>
<tr>
<td>Total investment return</td>
<td>831</td>
<td>807</td>
<td>(19)</td>
<td>1,619</td>
</tr>
<tr>
<td>Contributions</td>
<td>96</td>
<td>1,326</td>
<td>15,329</td>
<td>16,751</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(926)</td>
<td>(1,267)</td>
<td>—</td>
<td>(2,193)</td>
</tr>
<tr>
<td>Transfers to System affiliated Foundations</td>
<td>(7)</td>
<td>—</td>
<td>(18)</td>
<td>(25)</td>
</tr>
<tr>
<td><strong>Endowment net assets, end of year</strong></td>
<td>$ 19,521</td>
<td>$ 21,439</td>
<td>$ 187,385</td>
<td>$ 228,345</td>
</tr>
</tbody>
</table>
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), and safe assets (cash and US 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, 2016 is as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Policy Target</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe Assets</td>
<td>5%</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Portfolio Overlay</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Public Risk Assets</td>
<td>60%</td>
<td>45%</td>
<td>75%</td>
</tr>
<tr>
<td>Private Risk Assets</td>
<td>35%</td>
<td>20%</td>
<td>40%</td>
</tr>
</tbody>
</table>

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) **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.

   c) **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. This allocation has been parsed into four sub-asset classes which further define the portfolio’s risk.

      i. **Public Equity** allocation is the primary growth driver of the portfolio. In it are investments in either liquid index securities and/or investment managers who invest with companies or in markets with great prospects, while taking positions against (a.k.a., short shorting) those that have deteriorating fundamentals and/or are in declining industries.

      ii. **Public Credit** investments provide a differentiated source of return from the overall equity markets and diversify our public market risk. These are investments with managers that invest in corporate, sovereign, and structured credit.

      iii. **Real Return** represents a hedge against inflation, so as to preserve the endowment’s corpus. This allocation includes investments in commodities (either through derivatives and/or their physical assets), REITs, and occasionally equities that are tied to natural resource companies. Historically, these investments have maintained high correlations to levels of inflation.

      iv. **Pure Alpha** portion of the portfolio invests with niche investment managers that provide idiosyncratic sources of investment return. These investment strategies cannot be replicated in an index, nor does their performance track to an index. Examples of these strategies are global macro managers who make calls on the
direction of economic events through fundamental analysis, event driven managers that analyze corporate events and take positions based on probable outcomes, and insurance-linked securities that have zero correlation to equity markets (and are dependent on outside factors such as weather and/or natural disasters).

d) 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 4.1% and 3.9% of the moving average market value for the years ended June 30, 2016 and 2015, 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 the 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 2016 and 2015 were 4.0% and 3.9%, respectively. The approved spending rate for 2017 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.

In establishing this policy, the Spending Policy Committee considered the long-term expected return on the endowment and its goal of preserving principle. 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 carryover for two 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 were available for the following purposes at June 30 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic programs</td>
<td>$ 35,323</td>
<td>$ 32,882</td>
</tr>
<tr>
<td>Student support</td>
<td>17,327</td>
<td>17,837</td>
</tr>
<tr>
<td>University advancement</td>
<td>2,681</td>
<td>1,954</td>
</tr>
<tr>
<td>Research</td>
<td>16,917</td>
<td>17,331</td>
</tr>
<tr>
<td>Faculty support</td>
<td>1,885</td>
<td>2,190</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 74,133</td>
<td>$ 72,194</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic programs</td>
<td>$ 6,942</td>
<td>$ 6,253</td>
</tr>
<tr>
<td>Student support</td>
<td>6,900</td>
<td>6,808</td>
</tr>
<tr>
<td>University advancement</td>
<td>169</td>
<td>285</td>
</tr>
<tr>
<td>Research</td>
<td>3,455</td>
<td>6,640</td>
</tr>
<tr>
<td>Faculty support</td>
<td>1,880</td>
<td>2,398</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 19,346</td>
<td>$ 22,384</td>
</tr>
</tbody>
</table>

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 467(b) plan for top executives in 2002. Total pension expense for the years ended June 30, 2016 and 2015 was approximately $151,000 (in dollars) and $201,000 (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, 2016 and 2015.

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 $30.2 million or 2.5% and $32.6 million or 2.7% of the Foundation’s total assets of $1.2 billion at June 30, 2016 and 2015, 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, 2016 and 2015, this corporation held $13.8 and $11.8 million in net assets, respectively, and has a net operating income (loss) of $0.6 million and $(1.3) million for the years ended June 30, 2016 and 2015, respectively, which are reflected in the consolidated financial statements.

14. Subsequent Events
Subsequent events have been evaluated by management through September 15, 2016, 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.

“This scholarship has alleviated my burdens financially, academically, and personally, giving me the opportunity to focus on my studies, and as a mother of four, being able to assist with my children’s needs.”

Student and recipient of the Richard A. Henson Scholarship at the University of Maryland Eastern Shore, Shelly Ann Henry
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April 15, 2016, University of Maryland University College

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Back row, L-R: Jungho Kim, Matthew Hemm, Russell T. Hill, Rommel Miranda, Upal Ghosh, Jane Wolfson, Robert Caret, Valli Meeks, James Brady

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