



USMF FOUNDATION

SERVING THE UNIVERSITY SYSTEM OF MARYLAND

Leading the Way

2010 ANNUAL REPORT

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Contact Us

The USM Foundation recognizes its obligation to respect and protect the privacy of our donors. Information about donations is handled with respect and confidentiality to the extent provided by law. Some donors prefer anonymity. We will respect the wishes of contributors who prefer their gifts to remain confidential.

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From the Chairman and President



As we close another fiscal year, we are grateful for this opportunity to reflect on the progress of the University System of Maryland Foundation (USM Foundation) in 2009-2010.

We are pleased to note that even as the economy across the country continued its prolonged period of struggle, the USM Foundation's Endowment and Operating Funds both realized solid growth. The Endowment Fund returned 13.6 percent this past fiscal year and the Operating Fund gained 10.6 percent during this period. Combined assets under the Foundation's management grew from \$752 million to \$817 million. Credit for these results is due to the forward-thinking investment strategies put in place by our Investment Committee and executed by the Foundation's investment team.

We also have exciting news to report on the progress of the USM's federated fundraising campaign. This past year, USM institutions raised \$222 million in philanthropic gifts. At fiscal year-end, they had attained 83 percent (\$1.45 billion) of our federated goal of \$1.7 billion.



Walter R. Fatzinger, Jr. (left) with
Leonard R. Raley

Walter R. Fatzinger, Jr.
Board Chairman

Leonard R. Raley
President and CEO

This past year saw wide recognition of the excellence and achievements of USM leadership:

- The USM's ongoing efficiency and effectiveness initiative continues to garner national attention and praise. The U.S. Department of Education has singled out the USM as a success story in the wise stewardship of resources; last fall, *The Washington Monthly* referred to the initiative as "A Mid-Atlantic Miracle." And President Barack Obama has cited the USM as a model for others in holding down costs and keeping tuition increases in check.
- In September 2009, USM Chancellor William "Brit" Kirwan received the Carnegie Corporation Academic Leadership Award. This award recognizes the Chancellor's commitment to excellence in higher education, his efforts to make it accessible, and his drive to make sure that as many young people as possible succeed. In March 2010, Chancellor Kirwan was further honored with the 2010 TIAA-CREF Theodore M. Hesburgh Award for Leadership Excellence, in recognition of his commitment to higher education and contributions to the greater good.

In recognition of the Chancellor's achievements, and to leverage the grants that accompanied these prestigious awards, the USM Foundation hosted a dinner honoring Brit and officially launching the new Board of Regents initiative, *A Matter of Degrees: USM Leading the Way in College Completion*. The USM Foundation raised more than \$2.3 million to fund the *A Matter of Degrees* initiative, which is profiled in greater depth in this annual report.

This year also saw transition at the Foundation: In June, one of our longest-serving and dedicated professionals, CFO and Vice President for Finance Joyce Marx, retired after 20 years with the Foundation. We also want to acknowledge the long and dedicated service of our friend and USM Foundation board member Erwin Raffel, D.D.S., who passed away suddenly in September.

As you examine this 2010 Annual Report, we hope you will agree with our assessment that through outreach, partnerships, and sound financial practices, the USM Foundation is better positioned than ever for growth, success, and positive impact.

A Letter from the Chancellor



nce again, the University System of Maryland (USM) has experienced a year marked by both challenges and achievements. While we should all take great pride in the fact that the USM was held out as a worthy funding priority in Annapolis even as the economy sputtered, we must not lose sight of the fact that we were in no way spared from budget action.

USM has been, and continues to be, called upon to help address the state's fiscal challenges. Since Fiscal Year 2009, the USM has sustained state funding reductions of \$63.3 million, enacted furloughs to achieve savings of \$68 million, and will transfer \$142 million in fund balance to the state. All said, this comes to a total of \$273.3 million.

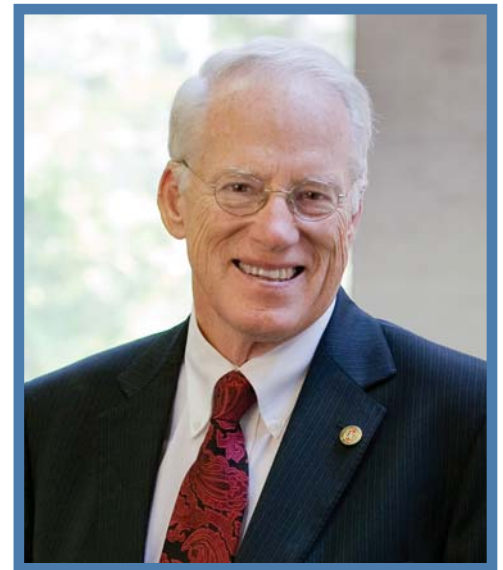
Our Regents, faculty and staff have stepped up to meet growing demand despite these challenges: The USM is serving more students than ever before, our graduation rates are well above national averages for public universities, time-to-degree across the USM is at its best level ever, and we saw yet another record level of extramural research and development funding of more than \$1.2 billion. And, between prestigious national publications such as *The Princeton Review*, *Diverse Issues in Higher Education*, *Kiplinger's*, and *U.S. News and World Report*, you will find every one of USM's degree-granting institutions featured. In addition, despite the struggling economy, our institutions continue to attract major philanthropic giving to support students, research, and facilities. As the University System moves into an era of unprecedented demands paired with scarcer resources, such private support will provide the key to advancing our mission.

The dedication and hard work of the USM Foundation stands out, cementing the Foundation's role as an ever more important part of the USM success story. The USM Foundation remains committed to managing our institutions' assets in a manner that maximizes advancing scholarship and understanding and assisting students with much-needed financial support. Moreover, the Foundation has a unique role in advocating for the USM, and — perhaps most important — partnering with member institutions to support and enhance fundraising efforts and celebrate fundraising successes.

This past year, the endowment has experienced solid returns, celebrated fundraising successes, and created a genuine climate of philanthropy across the USM. These achievements underscore the professionalism of the Foundation at every level.

Finally, on a personal note, I was incredibly touched by the celebratory dinner hosted in May in recognition of the Academic Leadership Award I received from the Carnegie Corporation. The Regents, the Foundation, and so many friends and colleagues joined together to make the dinner a truly memorable experience. Even more important, I was moved by the funds the Foundation raised to support the launching of *A Matter of Degrees*, our focused effort to dramatically increase Maryland's college completion rate.

On behalf of the Board of Regents, the presidents, and the entire USM community, I extend my heartfelt appreciation, congratulations, and thanks to the many men and women who make the USM Foundation so effective. I look forward to our continuing partnership in the years to come.



William E. Kirwan
Chancellor

A Matter OF Degrees:

USM Leading the Way in College Completion

On May 13, 2010, the University System of Maryland Board of Regents honored Chancellor William E. “Brit” Kirwan for receiving the prestigious 2009 Academic Leadership Award from the Carnegie Corporation of New York. The celebration also formally launched **A Matter of Degrees: USM Leading the Way in College Completion**, a focused effort to dramatically increase Maryland’s college completion rate.

A Matter of Degrees has three goals: **1)** to build a strong pipeline of students prepared to attend college, particularly among Maryland’s growing population of minority and disadvantaged students; **2)** to increase opportunities for student success after admission; and **3)** to support degree completion for those who have left school due to financial need. By the time of the event, the USM Foundation had raised more than \$1.85 million to support this effort. With Chancellor Kirwan dedicating the monetary awards that accompanied his Carnegie Award and his TIAA-CREF Theodore M. Hesburgh Award for Leadership Excellence, the *A Matter of Degrees* campaign was launched with total funds in excess of \$2.35 million.



Left photo— From left to right: William Couper, President, Mid-Atlantic Division, Bank of America; UMBC President Freeman Hrabowski; Regent Chair Clifford Kendall; Chancellor Kirwan

Middle photo— Dr. Sherita Hill Golden, former student of Chancellor Kirwan’s

Right photo— From left to right: Chancellor Kirwan; Governor Martin O’Malley; Chancellor Kirwan’s daughter, Ann Horton



or most of the 20th century, the United States was the world's leader in education. As recently as 1980, our nation was first in both high school and college completion rates. This gave the U.S. an enormous global advantage in the quality of our workforce and the innovation of our economy.

Unfortunately, we are losing this position of leadership. Currently, the U.S. ranks 10th among industrialized nations in college completion rates, with only 39 percent of American young adults who are 25 to 34 years old holding a college degree.

Most troubling of all is the fact that, unlike most other industrialized nations, our college completion rate will decline if we continue upon our current path. The U.S. has unique challenges facing it: changing demographics, structural economic changes, and an aging model of higher education. If current college participation and completion rates among our growing populations continue at current levels, the proportion of young adult college degree holders will drop below 35 percent by 2025.

This trend means that the United States would have gone from first to last in postsecondary completion rates among industrialized nations over the past several decades, threatening America's economic leadership and the very cultural and social fabric of our nation.

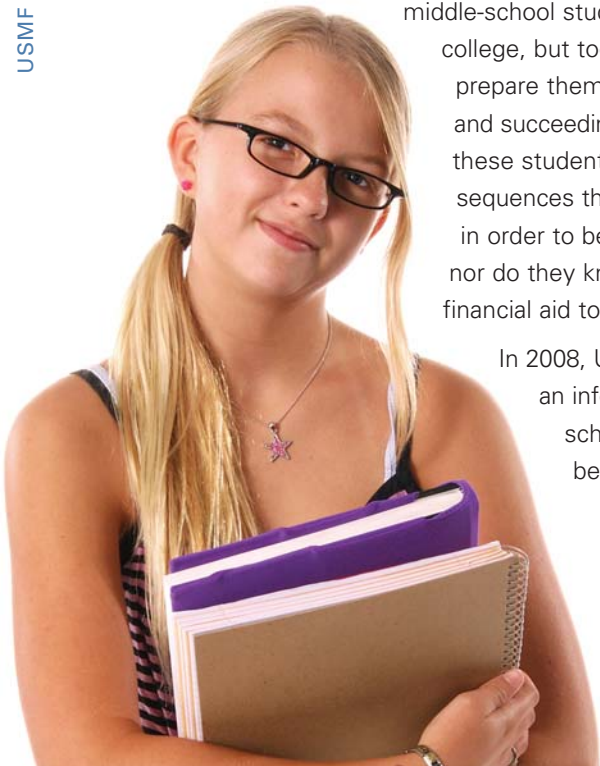
In recent years, this "education deficit" has become a national imperative. The College Board, the Lumina Foundation, the Gates Foundation, and the Obama administration have all embraced the goal of dramatically improving U.S. college completion rates.

The *A Matter of Degrees* initiative will help position Maryland as a leader in the college completion effort, with the goal of making Maryland first in the nation in the proportion of its population with a college degree.

A Matter of Degrees approaches the college completion challenge from three fronts:

First, we must get more students on the path to college by the time they are in middle school. Most low-income and minority middle-school students say they want to go to college, but too few of them know how to prepare themselves for being admitted to and succeeding in college. In too many cases, these students don't know what course sequences they need to pursue in high school in order to be ready for college-level work, nor do they know how to get the necessary financial aid to fund their college aspirations.

In 2008, USM launched **Way2GoMaryland**, an information campaign to help middle school students and their families begin preparing for college.



Launched in 2008 at the Maryland Science Center in Baltimore City, with subsequent events on Maryland's Eastern Shore, in Prince George's County, and in Montgomery County, well over 1,000 Maryland middle- and early high-school students, parents, and guardians have now participated in Way2GoMaryland events. With lead sponsor ATK—a premier aerospace and defense company—providing more than \$200,000 in support, these Way2GoMaryland events have provided information about the course sequence students need to put them on the path to college. In addition, participants received insight into the college application process, financial aid opportunities, student loans, and scholarships.

A Matter of Degrees will enable the USM to expand Way2GoMaryland with a more active campaign, including the creation of Way2GoMaryland clubs in targeted middle schools. This program will create a familiarity with the path to college for students, especially low-income and under-represented minority students, many of whom will be the first in their families to go to college.

The second area of focus of *A Matter of Degrees* is to increase the odds of student success once they enter college. Students— especially those from less academically challenging high schools — often struggle in introductory math, science, and English courses. These courses present a large hurdle to college completion, and they exist on every one of USM’s campuses. USM has piloted new learning strategies in selected courses and we know they work.

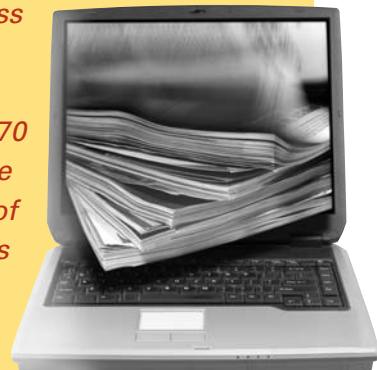
Course redesign, based on the research and work conducted by the National Center for Academic Transformation (NCAT), uses information technology and more effective learning strategies to improve the student pass rate and enhance student learning while lowering costs. The hallmarks of successful course redesign efforts include fewer lectures, more labs and review classes, and online tutorials.

A Matter of Degrees will enable the USM to expand this program further, with a goal of transforming the entire 50 or so “gatekeeper” courses across the USM into “gateway” courses and producing fewer failed students, better learning outcomes, and improved progress toward degrees.



COURSE REDESIGN

The USM initiated a course-redesign pilot project a few years ago that proved very successful. For example, the University of Maryland Eastern Shore redesigned its “Principles of Chemistry I” course, utilizing an on-demand online tutorial, providing additional technology-assisted instruction, regularly posting progress reports for students, and reducing weekly classes from three to two — which served to free instructors up for more one-on-one assistance. In the redesigned course, the student pass rate increased from just over half to almost 70 percent and the consolidation of course sections cut costs substantially.



The third component of *A Matter of Degrees* targets the element of affordability. While the USM is a leader in its commitment to affordability — with tuition held flat for four of the past five years, need-based aid emphasized, and a Systemwide policy to reduce the debt of low-income students — the issue of cost remains a persistent obstacle to completion. More than two in five students who go to a four-year college or university end up dropping out, with financial stress — not academic failure — being the primary cause. These are students who are making progress toward a degree when they hit a financial wall and just can't afford to continue.

Through *A Matter of Degrees*, the USM will launch an ongoing campaign to provide "last dollar" financial assistance — combined with support and counseling — to students in danger of running out of money just a few semesters shy of graduating.

The thrust of *A Matter of Degrees* is to address the college completion challenge as a continuum. The USM will ensure that more students are prepared for the rigors of college coursework when they complete high school, more are able to succeed once they reach college, and more have the financial means to graduate. Clearly, this one effort will not reverse the troubling trends in higher education participation and completion in Maryland, let alone nationwide. But just as clearly, it will be a vital component in a larger effort to make Maryland number one in college completion, with the nation's most skilled workforce.



LAST DOLLAR

The Bernard Osher Foundation has donated \$1 million to establish the Osher Reentry Scholarship program at Towson University. The program targets non-traditional students who are pursuing a first bachelor's degree after a break of at least five years. Grants are need-based and defray the cost of tuition. To date, Osher Reentry Scholarship grants have funded 92 Reentry Scholars at Towson University, providing these students with the opportunity to renew their dream of pursuing a college degree. The USM will institute programs similar to the Osher Reentry Scholarship on selected campuses through A Matter of Degrees.



INVESTMENT Report

Purpose of the Endowment

Since 1978, the Foundation has managed and administered funds for the benefit of institutions and foundations affiliated with the University System of Maryland. Our investment objective is to generate returns so that distributions can be made, and to preserve capital as adjusted for inflation. The endowment pool is comprised of just over 3,400 individual endowment accounts of 20 institutions. Distributions to these institutions support students, faculty, research, facilities, and special initiatives.

Fund Management

The Investment Committee is responsible for the oversight and policy of the Endowment and Operating Fund Portfolios. Committee members are volunteers with experience from a wide range of financial and investment roles. Members meet in person on a quarterly basis and through ad hoc conference calls. The Investment Committee establishes the investment objectives, sets asset allocation policy, approves staff-driven recommendations, and monitors performance and risk exposures. The Committee also handles matters pertaining to conflicts of interest and socially responsible investing. The investment staff conducts due diligence on investments and provides recommendations to the Committee. Staff also provides ongoing monitoring and risk management functions for the portfolios. They prepare committee reports as well as all investment-related communications with the Foundation's constituents and external clients.

USM FOUNDATION ENDOWMENT POOL



ENDOWMENT ASSETS UNDER MANAGEMENT

As of June 30, 2010

USMF Funds:		[in thousands]
University of Maryland, College Park	\$	78,236
University of Maryland, Baltimore County		47,603
University of Maryland Eastern Shore		15,442
University of Maryland, Baltimore		14,145
University System of Maryland Foundation		10,989
University of Maryland University College		10,898
University of Maryland Center for Environmental Science		432
USMF Trusts and Annuities		7,646
Operating Funds Invested in the Endowment		9,786
Sub-Total	\$	195,177
Affiliated Organizations:		[in thousands]
The University System of Maryland Common Trust	\$	177,207
The University of Maryland College Park Foundation		163,591
The University of Maryland Baltimore Foundation		78,772
Frostburg State University Foundation		12,437
Frederick Community College Foundation		7,428
Coppin State University Development Foundation		6,928
Allegany College of Maryland Foundation		6,910
Hagerstown Community College Foundation		5,760
Towson University Foundation		5,222
Bowie State University Foundation		4,643
Howard Community College Educational Foundation		4,177
The University of Maryland Baltimore Educational Foundation		3,849
Alumni Association International		3,621
Community College of Baltimore County Foundation		3,119
Community College of Baltimore County – Essex Foundation		1,673
Sub-Total	\$	485,337
Total Endowment Fund	\$	680,514

INVESTMENT OVERVIEW '10

For the fiscal year ended June 30, 2010, the USM Foundation Endowment Fund returned 13.6% versus our composite benchmark return of 9.3%. For the trailing five years, the Endowment had an annualized investment return of 3.2%, versus a composite benchmark return of 1.4%.

The Global Equities portfolio returned 22.8%, versus a return of 11.8% for the MSCI All Country World Index. These gains accounted for 59% of the total endowment return. The public equity portfolio had a return on investment of 16.0%. Managers who invested in cyclical industries and natural resource-focused equities especially outperformed. The private equity portion returned 35.9% for the year, as a result of profitable sales as well as the reflation of valuations for many of the remaining portfolio companies.

The Multi-Strategy and Opportunistic portfolio returned 13.3% and attributed 26% of the overall return. These managers found opportunities with compelling risk-adjusted profiles in the fallout of the credit crisis. Their focus on risk management was most evident in the last two months of the Fiscal Year when this portfolio declined -1.2% while global markets declined -12.3%.

The Real Assets portfolio overall gained 5.8%. Marketable and private investments related to energy, resources, and infrastructure had annualized returns of 19.5% and 21.2% respectively, and together were responsible for 25% of the total performance of the endowment. The real estate portfolio returned -22.9% for the year and detracted -1.8% from total endowment performance.

Our bonds portfolio gained 8.7% and tended toward higher quality corporate issues and mortgages throughout the year. The Bonds & Cash portfolio also provided liquidity for spending and non-marketable commitments. Our non-marketable investments total 35% of the total pool and as of June 30, 2010, we had remaining \$114 million in capital to be called, equal to 17% of the endowment.

AVERAGE ANNUALIZED COMPOUND RETURNS

(As of June 30, 2010)

	1-YEAR	3-YEAR	5-YEAR
USMF Endowment	13.6%	-5.5%	3.2%
Composite Benchmark	9.3%	-6.8%	1.4%
TUCS Universe Median	12.5%	-3.3%	2.9%
80% S&P 500 / 20% Barclays Agg.	13.8%	-6.1%	0.8%

INVESTMENT COMMITTEE

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Partner, Taconic Capital Advisors

Joseph R. Hardiman, Vice Chair

Private Investor

Larry D. Boggs

Managing Director, Wells Fargo Advisors

George P. (Pat) Clancy

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Vanessa L. Melendez

Director of Investments

Kevin T. Dalmut

Senior Investment Analyst

Carrie R. Browne

Operations Assistant

INVESTMENT STRATEGY

The Investment Committee meets annually to evaluate the overall asset allocation for the Endowment. We continue to maintain broad policy allocation ranges to four asset types: global equities, multi-strategy, real assets, and bonds and cash. We made only slight adjustments to the overall asset mix this year. We updated our investment policy to address liquidity.

ASSET ALLOCATION

(Fiscal Years Ending June 30)

	2006	2007	2008	2009	2010	CURRENT Policy Range
Global Equities	57%	51%	43%	38%	37%	35% - 55%
Public Equities	52%	45%	33%	26%	22%	
Private Equities	5%	6%	10%	12%	14%	
Multi-Strategy	21%	27%	28%	29%	27%	20% - 30%
Real Assets	14%	18%	24%	24%	28%	20% - 30%
Energy & Resources	9%	11%	16%	16%	20%	
Real Estate	5%	7%	8%	8%	8%	
Bonds & Cash	8%	4%	5%	9%	8%	5% - 15%

PERFORMANCE BY ASSET CLASS

(As of June 30, 2010)

	Average Annualized Compound Returns		
	1-YEAR	3-YEAR	5-YEAR
Global Equities	22.8%	-6.2%	2.3%
Public Equities	16.0%	-7.0%	2.6%
Private Equities	35.9%	-6.0%	0.5%
MSCI All Country World Index	11.8%	-10.5%	1.2%
Multi-Strategy	13.3%	-0.1%	5.4%
HFR Fund of Funds Index	4.7%	-4.0%	2.3%
Real Assets	5.8%	-9.8%	6.4%
Public Energy & Resources	19.5%	-12.9%	7.7%
Private Energy & Resources	21.1%	2.5%	17.4%
Real Estate	-22.9%	-19.9%	-5.8%
GS Commodities Index	-5.4%	-12.5%	-8.1%
NCREIF Value-Add Index	-18.2%	-19.5%	-4.5%
Bonds & Cash	4.3%	5.8%	4.8%
Bonds	8.7%	7.6%	5.9%
Cash	0.0%	1.1%	1.9%
Barclays Aggregate Index	9.5%	7.6%	5.5%
ML 90-Day T Bills Index	0.2%	1.6%	2.8%

Global Equity

The Global Equity portfolio is the largest allocation of the Endowment and is designed to provide exposure to both public and private equity markets worldwide. The portfolio is diversified, covering a variety of investment styles, sectors, and geographies. We favor managers who research companies' fundamental value and strategic capability of success. Our managers seek out companies that generate strong returns on invested capital and steady growth of free cash flow, and that have sustainable competitive advantages.

Public Equity

The Public Equity portfolio provides exposure to the overall direction of global equity markets. The objective of this portfolio is to outperform the MSCI All Country World Index on a risk-adjusted basis over a market cycle. We use passive securities, long-only managers, long/short managers, and derivative instruments. The Public Equity portfolio is global, with the majority of exposure in developed markets of North America, Europe, and Asia. The portfolio also has investments in

emerging markets, for example Sub-Saharan Africa, South America, and parts of the Middle East.

Private Equity

The objective of the Private Equity portfolio is to capture a premium over public equity returns from providing capital in illiquid markets. Our private equity managers provide business advice and capital to position companies for growth. They may fund either equity or debt of companies in various stages of the growth cycle. These partnerships typically have life spans of ten years. Our portfolio is comprised of managers with niche expertise in specific industries and stages of the business cycle. Since they are very long-term in nature and have a limited window to invest, we seek to diversify over multiple vintage years.

As of June 30, 2010, we committed \$182 million to nine firms and 19 partnerships. Of those commitments, we invested \$132 million, received \$44 million in profit distributions, and have a remaining market value of \$95 million. As of June 30, we had \$51 million in outstanding commitments, or approximately 7% of the Endowment.

PUBLIC EQUITY PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Public Equities	16.0%	-7.0%	2.6%	12.1%
MSCI All Country World Index	11.8%	-10.5%	1.2%	19.1%

Multi-Strategy and Opportunistic

The Multi-Strategy and Opportunistic portfolio is designed to deliver equity-like returns over a full business cycle with lower volatility than the stock market. This portfolio also provides diversification from our global equity portfolio by generating returns that are not dependent on the direction

of the stock market. We invest with flexible managers that allocate capital to the strategies and markets that are most attractive throughout a cycle. They may invest in any asset class, long and short, and look for arbitrage opportunities created by corporate restructuring events.

MULTI-STRATEGY AND OPPORTUNISTIC PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Multi-Strategy & Opportunistic	13.3%	-0.1%	5.4%	7.5%
HFRI Fund of Funds Composite Index	4.7%	-4.0%	2.3%	6.8%
S&P 500 Index	14.4%	-9.8%	-0.8%	16.8%

Real Assets

The objective of our Real Assets portfolio is to provide long-term growth, as well as protection against inflation. Real Assets include both public and private companies that focus on energy, timber, metals, agriculture, infrastructure, alternative energy, and real estate.

Energy, Natural Resources, & Infrastructure

The performance of this portfolio is expected to benefit from increasing global demand for resources and infrastructure. Our managers invest in companies that are involved throughout the spectrum of energy and

trended down over the past couple of years, fees for equipment and services have stayed higher for longer, benefitting our portfolio's bottom line this year.

As of June 30, 2010, we committed \$137 million to seven firms and 12 partnerships. Of those commitments, we invested \$107 million, received \$47 million in profit distributions, and have a remaining market value of \$94 million. As of June 30, 2010, we had \$31 million in outstanding commitments, or approximately 4.5% of the Endowment.

ENERGY PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Public Energy & Resources	19.5%	-12.9%	7.7%	31.9%
Private Energy & Resources	21.2%	2.5%	17.4%	20.2%
Goldman Sachs Commodity Index	-5.4%	-12.5%	-8.1%	35.0%

resources production. The portfolio contains operator-owned reserves of oil, natural gas, and minerals, as well as the companies that provide equipment, services, storage, and transportation of those resources. Our managers also own infrastructure projects for renewable energy such as wind, solar, and geothermal power.

Operators that have direct ownership of reserves of oil, gas, and coal have the highest positive correlation with inflation. The direct operators we invest in enhance operations by governing capital spending and controlling production. This year our operators worked to increase the efficiency of production via cost cutting measures and the application of new technologies.

Companies that provide equipment, services, storage, and transportation to operators are usually contracted fee-for-service businesses. Although fuel pricing has

Real Estate

The Real Estate portfolio is broadly diversified with equity and debt investments in properties throughout the U.S., Europe, and Asia. It is also diversified across property types including office, hospitality, multifamily residential, retail, industrial, and land. We favor value-add managers that buy properties with the goal of improving them by stabilizing cash flow through increasing occupancy, bringing in higher quality tenants, improving the overall function and look of a building, and increasing efficiency of operations.

Real Estate continued to suffer write downs for the second year and was the only portfolio that detracted from performance in fiscal year 2010. Our investments in trophy offices in major cities experienced reduced cash flows due to increasing unemployment and subsequent

vacancies. Managers mitigated losses by improving the efficiency of operations and maintaining tenants at the expense of reducing rents. In addition, they worked with banks to extend the terms of their loans that were facing near-term maturities. We are seeing signs of life in the deal market as large institutional investors seek the types of stabilized cash-flowing assets that our managers own.

As of June 30, 2010, we committed \$139 million to 13 firms and 24 real estate funds. Since inception, we invested \$105 million, received \$33 million in profit distributions, and have a remaining market value of \$51 million. As of June 30, 2010, we had \$34 million in outstanding commitments, or approximately 5% of the Endowment.

REAL ESTATE PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Real Estate	-22.9%	-19.9%	-5.8%	17.0%
NCREIF Value-Add Index ¹	-18.2%	-19.5%	-4.5%	16.2%

Bonds & Cash

The Bonds & Cash allocation provides general liquidity for spending and capital calls. Our cash portfolio is invested in a short-term account with returns similar to three-month

Treasury bills. This year our bond manager shifted into higher quality corporate bonds and mortgages.

BONDS & CASH PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Bonds	8.7%	7.6%	5.9%	3.1%
Barclays Aggregate Bond Index	9.5%	7.6%	5.5%	3.7%
Cash	0.0%	1.1%	1.9%	0.8%
ML 90-Day T Bills Index	0.2%	1.6%	2.8%	0.6%

Operating Fund

Funds under management in the Operating Fund totaled \$109 million as of June 30, 2010. Operating Funds are designed for current use and our account holders expect to be able to withdraw their full amounts at any given time. As a result, the ability to take risk on an individual account level is very low. However, these funds are pooled and based upon historical cash flows it is highly probable that a substantial portion of the funds remain invested in the pool.

For Fiscal Year 2010, the Operating Fund returned 10.6%. The five-year annualized return was 4.2%, and volatility was 4.7%. The Finance Committees of our Operating Fund clients have agreed to an investment strategy that seeks to generate an annualized return between 3% and 5% with a volatility range of 7% to 13% over long periods of time. Investments in high-grade corporate bonds and hedged equity strategies lead to the fund's strong performance this year.

ASSET ALLOCATION

ASSET CLASS	POLICY RANGE	ACTUAL, JUNE 2010
Fixed Income	40% – 60%	51%
Absolute Return	20% – 40%	26%
Endowment Investment Pool	0% – 20%	9%
Cash	0% – 25%	14%

OPERATING FUND ANNUALIZED RETURNS

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN
Operating Fund	10.6%	0.6%	4.2%
Merrill Lynch 90-day T-bills Index	0.2%	1.6%	2.8%

OPERATING FUND PERFORMANCE HISTORY

Fiscal Years Ending June 30

	2010	2009	2008	2007	2006
Operating Fund	10.6%	-9.3%	2.4%	12.6%	7.0%
ML 90-day T-bills Index	0.2%	1.0%	3.6%	5.2%	4.0%

FINANCIAL Highlights

FINANCIAL OVERVIEW

<i>(in thousands)</i>	2010 (June)	2009 (June)	% of Change
Total Assets	\$ 817,498	\$ 752,399	8.6%
Net Assets	\$ 255,539	\$ 247,800	3.1%
Total Revenues	\$ 45,023	\$ (35,379)	227.2%
Program & Operating Expenses	\$ 34,642	\$ 36,315	(4.6)%

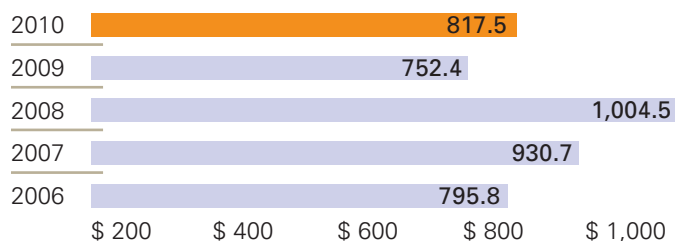
EXPENSES

(in thousands)

Program Support	\$ 19,120	55.2%
Scholarship	\$ 5,429	15.7%
Fundraising	\$ 4,635	13.4%
General & Administrative Other	\$ 4,312	12.4%
General & Administrative Institution Support	\$ 1,146	3.3%
TOTAL	\$ 34,642	

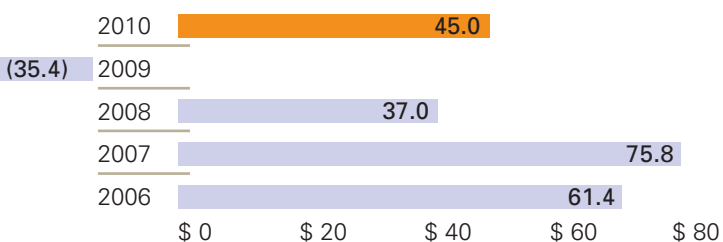
ASSETS

(in millions)



REVENUES

(in millions)



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 PricewaterhouseCoopers LLP the audited financial statements of the Foundation as of and for the year ended June 30, 2010, to be included in the Foundation's annual report. The Audit Committee has also discussed with PricewaterhouseCoopers 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 PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 ("Independence Discussions with Audit Committees"), and has discussed with PricewaterhouseCoopers 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 Foundation that the audited financial statements be included in the Foundation's annual report.

Submitted by The Audit Committee:

Robert A. Bedingfield
Chair

Michael E. Meegan
Vice Chair

Kenneth L. Bedingfield
Walter R. Fatzinger, Jr.

William M. Gust

LeRoy J. Herbert

Arthur S. Mehlman

Paul H. Mullan

Tonia L. Pankopf

C. E. (Ted) Peck

Leonard R. Raley

Sam A. Zappas

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 executive auditor maintains oversight over key areas and reports directly to our Audit Committee. PricewaterhouseCoopers LLP, our independent auditor, reports directly to the Audit Committee.



Leonard R. Raley
President and CEO

Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of the University System of Maryland Foundation, Inc. and its subsidiaries (the "Foundation") at June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



Baltimore, Maryland
September 16, 2010

Consolidated Statements of FINANCIAL POSITION

(June 30, 2010 and 2009 — in thousands)

ASSETS	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 916	\$ 1,007
Accounts receivable	993	3,653
Receivable from investments sales	1,901	5,264
Accrued interest receivable	517	512
Contributions receivable — current portion	9,849	9,074
Other current assets	278	334
Total Current Assets	14,454	19,844
INVESTMENTS		
Endowment	185,301	164,270
Operating	45,929	51,309
Held for other foundations	553,957	494,855
Total Investments	785,187	710,434
OTHER ASSETS		
Contributions receivable — long term portion	6,345	10,416
Contributions receivable from remainder trusts	795	826
Angus breeding herd, trademark, logo, records, and data bank	1,614	1,717
Real and personal property, net	8,665	8,722
Other assets	438	440
Total Other Assets	17,857	22,121
TOTAL ASSETS	\$ 817,498	\$ 752,399

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of FINANCIAL POSITION

(June 30, 2010 and 2009 — in thousands)

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,293	\$ 3,120
Payable for investment purchases	192	897
Deferred income	493	710
Total Current Liabilities	2,978	4,727
OTHER LIABILITIES		
Payables under split-interest agreements	4,458	4,575
Due to other foundations and affiliates	554,523	495,297
Total Other Liabilities	558,981	499,872
Total Liabilities	561,959	504,599
NET ASSETS		
Unrestricted	52,616	43,259
Temporarily restricted	61,547	60,696
Permanently restricted	141,376	143,845
Total Net Assets	255,539	247,800
TOTAL LIABILITIES AND NET ASSETS	\$ 817,498	\$ 752,399

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of ACTIVITIES AND CHANGES IN NET ASSETS

(For the year ended June 30, 2010 — in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions and grants	\$ 2,671	\$ 8,926	\$ 2,009	\$ 13,606
Investment income	1,269	2,120	—	3,389
Other program income	787	—	—	787
Courses and conferences	840	—	—	840
Sales and services	4,072	—	—	4,072
Change in value of split-interest agreements	34	(43)	(286)	(295)
Realized and unrealized gains (losses) on investments and other, net	9,048	17,140	(3,564)	22,624
Net assets released from restrictions	26,497	(26,497)	—	—
Total Revenues	45,218	1,646	(1,841)	45,023
EXPENSES				
Program	24,549	—	—	24,549
General and administrative— program support	1,146	—	—	1,146
General and administrative—other	4,312	—	—	4,312
Fundraising	4,635	—	—	4,635
Total Expenses	34,642	—	—	34,642
Change in net assets before transfers	10,576	1,646	(1,841)	10,381
Transfers per Board resolution	(1,219)	(795)	(628)	(2,642)
Change in net assets	9,357	851	(2,469)	7,739
Net assets at beginning of year	43,259	60,696	143,845	247,800
NET ASSETS AT END OF YEAR	\$ 52,616	\$ 61,547	\$ 141,376	\$ 255,539

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of ACTIVITIES AND CHANGES IN NET ASSETS

(For the year ended June 30, 2009 — in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions and grants	\$ 4,175	\$ 14,476	\$ 8,357	\$ 27,008
Investment income	1,229	1,507	—	2,736
Other program income	838	—	—	838
Courses and conferences	837	—	—	837
Sales and services	3,226	—	—	3,226
Change in value of split-interest agreements	—	98	462	560
Realized and unrealized gains (losses) on investments and other, net	(18,576)	7,626	(59,634)	(70,584)
Net assets released from restrictions	27,153	(25,284)	(1,869)	—
Total Revenues	18,882	(1,577)	(52,684)	(35,379)
EXPENSES				
Program	28,714	—	—	28,714
General and administrative—program support	1,033	—	—	1,033
General and administrative—other	4,385	—	—	4,385
Fundraising	2,183	—	—	2,183
Total Expenses	36,315	—	—	36,315
Change in net assets before transfers	(17,433)	(1,577)	(52,684)	(71,694)
Transfers per Board resolution	—	(17)	(660)	(677)
Change in net assets	(17,433)	(1,594)	(53,344)	(72,371)
Net assets at beginning of year	60,692	62,290	197,189	320,171
NET ASSETS AT END OF YEAR	\$ 43,259	\$ 60,696	\$ 143,845	\$ 247,800

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of CASH FLOWS

(For the years ended June 30, 2010 and 2009 — in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Change in net assets	\$ 7,739	\$ (72,371)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities		
Net realized and unrealized (gains)/losses on investments	(22,624)	70,584
Realized gains on investments for split interest agreements	(27)	(9)
Realized and unrealized (gains)/losses on managed funds	(57,208)	158,269
Realized and unrealized gains on transfers per Board resolution	(5)	—
Depreciation and amortization	315	252
Provision for bad debt	395	—
(Decrease)/increase in deferred income	(217)	43
Gift of investments	(432)	(250)
Gift of real and personal property	—	(109)
Decrease/(increase) in accounts receivable	2,660	(828)
(Increase)/decrease in accrued interest receivable	(5)	301
Decrease in contributions receivable	2,901	4,150
Decrease in other current assets	71	567
Decrease in contributions receivable from remainder trusts	31	104
(Increase)/decrease in accounts payable and accrued expenses	(827)	1,003
Increase/(decrease) in due to other foundations and affiliates	59,226	(177,613)
Contributions restricted for long-term investment	(2,860)	(9,744)
Total adjustments	(18,606)	46,720
Net cash and cash equivalents provided by/(used in) operating activities	(10,867)	(25,651)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of CASH FLOWS

(For the years ended June 30, 2010 and 2009 — in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES	2010	2009
Purchases of investments	(684,448)	(967,526)
Sales of investments	690,094	988,689
Increase/(decrease) in receivables from investment sales	3,363	(1,397)
(Decrease) in payable for investment purchases	(705)	(1,830)
(Decrease)/increase in cash surrender value of life insurance	(13)	66
Purchases and sales of equipment and real and personal property, net	(258)	(735)
Proceeds from sale of assets held for sale	—	547
Net cash and cash equivalents (used in)/provided by investing activities	8,033	17,814
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	2,860	9,744
Increase/(decrease) in payables under split-interest agreements	(117)	(1,368)
Net cash and cash equivalents provided by financing activities	2,743	8,376
Net (decrease)/increase in cash and cash equivalents	(91)	539
CASH AND CASH EQUIVALENTS		
Beginning of year	1,007	468
End of year	\$ 916	\$ 1,007

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

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 three separately accounted-for divisions: the University System of Maryland Foundation Funds, the American Journalism Review ("AJR"), and the Wye Herd, as well as a fully owned subsidiary for-profit corporation, the USMF Corporation (refer to Note 15 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 three divisions as well as a fully owned subsidiary. The consolidated financial statements include the accounts of these entities. All significant intercompany transactions and accounts are eliminated in consolidation.

Cash and Cash Equivalents

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

Office Equipment and Furniture

Equipment and furniture is carried at cost and presented within real and personal property on the balance sheet. The Foundation's policy is to charge all additions over \$1,000 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. Asset and accumulated depreciation accounts are relieved when equipment is sold or otherwise disposed.

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 Trustees 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 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 quarterly among the individual endowment funds 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.

Realized and Unrealized Gains/Losses

The Foundation reports realized and unrealized gains/(losses) net of investment manager fees. The following schedule reflects the gains and fees for the years ending June 30, 2010 and 2009 which does not include estimated \$12.9 million and actual \$11.6 million fees paid to the investment managers relating to investments held for other foundations for fiscal years ending June 30, 2010 and 2009, respectively. See section "Due to Other Foundations and Affiliates" for more information.

2010 (in thousands)	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Realized and unrealized gains (losses) on investments and other, gross of fees	\$ 9,825	\$ 17,702	\$ 135	\$ 27,662
Investment fees, not including those relating to managed funds which are included in permanently restricted	777	562	3,699	5,038
Realized and unrealized gains (losses) on investments and other, net of fees as recorded in the consolidated Statements of Activities	\$ 9,048	\$ 17,140	\$ (3,564)	\$ 22,624

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

2009 (in thousands)	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Realized and unrealized gains (losses) on investments and other, gross of fees	\$ (17,996)	\$ 7,902	\$ (55,852)	\$ (65,946)
Investment fees, not including those relating to managed funds which are included in permanently restricted	580	276	3,782	4,638
Realized and unrealized gains (losses) on investments and other, net of fees as recorded in the consolidated Statements of Activities	\$ (18,576)	\$ 7,626	\$ (59,634)	\$ (70,584)

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 described in Note 1).

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.

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. Included in fund raising expenses in the Consolidated Statement of Activities and Changes in Net Assets, approximately \$3 million and \$500,000 for the years ended June 30, 2010 and 2009, were expended on behalf of USM institutions.

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 these other foundations an annual management fee based on the fair value of endowment and operating funds administered (0.3% for endowment funds and 0.25% for operating funds in the years ended June 30, 2010 and 2009 except for USM endowment, which was charged 0.25%. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled \$2.3 million and \$1.7 million for the years ended June 30, 2010 and 2009, respectively.

The amounts due to other foundations and affiliates at June 30, 2010 and 2009, were as follows (in thousands):

(in thousands)	2010	2009
Allegany College of Maryland Foundation	\$ 6,908	\$ 6,059
Alumni Association International	3,621	3,324
Bowie State University Foundation	4,642	3,677
Community College of Baltimore County	3,118	—
Community College of Baltimore County @ Essex	1,673	—
Coppin State College Development Foundation, Inc.	6,926	6,345
Frederick Community College Foundation	7,425	4,211
Frostburg State University Foundation	12,434	11,073
Hagerstown Community College Foundation	5,758	4,904
Howard Community College Foundation	4,176	3,318
Maryland 4-H Foundation	—	1,498
Towson University Foundation	5,220	4,581
UMB Foundation	119,977	96,989
UMCP Foundation	191,636	182,239
University of Baltimore Foundation	3,848	3,396
University System of Maryland	177,161	163,683
TOTAL	\$ 554,523	\$ 495,297

Classification of Net Assets

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

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

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

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

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

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

Classification of Gifts

The Foundation reports gifts of cash and other assets as restricted support 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 statement of activities 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 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 IRC Section 75206(a) and ranged from 2.8% to 10.6%.

Administrative Fees

Foundation management designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses as follows, 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.

Investments—operating — For the years ended June 30, 2010 and 2009 the Foundation assessed a fee for each fund in the amount of 0.4% of the 12 month average balance. Professional investment fees are paid to the investment managers prior to the distribution of income.

Investments—endowment — The Foundation annually assesses each endowment account for operating and administrative expenses and institution fund-raising support 0.4% for the years ended June 30, 2010 and 2009, respectively, based on market value of assets managed. For the year ended June 30, 2010, the Foundation implemented an additional assessment of fees. Actual investment costs were allocated quarterly, as incurred, based on the fair value of the endowment fund. Professional investment fees are paid to or deducted by the investment managers prior to the distribution of income.

Estimates

The preparation of 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 financial statements and the

reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allocation of investments by type, 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.

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 a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received.

Accounts Receivable

Accounts receivable consist primarily of estate gifts. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2010 and 2009.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the current year's presentation.

3. Fair Value Measurements

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 fair value standard discusses valuation techniques such as the market approach, cost approach and income approach and establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

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 included listed equities and listed bonds.

Level 2 – Pricing inputs including inputs in markets that are not considered to be active for identical investments observable as of the reporting date. Investments which are generally included in this category include less liquid and restricted equity 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 corporate private equity and investment funds as well as off-shore hedge funds in which the Foundation does not have readily available access due to lock up periods and/or partnership agreements. In addition, the Foundation depends on the General Partner or the Investment Manager of the investment for pricing information.

The Foundation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. An investment's level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment on the part of the Foundation. The categorization of an investment with 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 following tables present the financial investments carried at fair value as of June 30, 2010 and 2009, by the fair valuation hierarchy defined above (in thousands):

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

June 30, 2010 (in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds and short-term investments ⁽¹⁾	\$ 25,895	\$ 25,895	\$ —	\$ —
Corporate and foreign bonds ⁽²⁾	89,715	—	89,715	—
Equities ⁽³⁾	4,982	4,982	—	—
United States Treasury notes and bonds ⁽²⁾	5,208	—	5,208	—
United States Agencies ⁽²⁾	3,290	—	3,290	—
Collateralized mortgage obligations/asset and mortgage backed securities ⁽²⁾	10,527	—	10,527	—
Absolute return ⁽⁴⁾	179,564	—	—	179,564
Long/short equity hedge funds ⁽⁵⁾	225,305	—	—	225,305
Private capital ⁽⁶⁾	95,318	—	—	95,318
Real estate and energy and natural resources ⁽⁶⁾	145,383	—	—	145,383
Totals	\$ 785,187	\$ 30,877	\$ 108,740	\$ 645,570

June 30, 2009 (in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds and short-term investments ⁽¹⁾	\$ 69,687	\$ 69,687	\$ —	\$ —
Corporate and foreign bonds ⁽²⁾	27,076	—	27,076	—
Equities ⁽³⁾	6,181	6,181	—	—
United States Treasury notes and bonds ⁽²⁾	15,633	—	15,633	—
United States Agencies ⁽²⁾	9,017	—	9,017	—
Collateralized mortgage obligations/asset and mortgage backed securities ⁽²⁾	17,519	—	17,519	—
Absolute return ⁽⁴⁾	176,793	—	—	176,793
Long/short equity hedge funds ⁽⁵⁾	204,765	—	—	204,765
Private capital ⁽⁶⁾	66,136	—	—	66,136
Real estate and energy and natural resources ⁽⁶⁾	117,627	—	—	117,627
Totals	\$ 710,434	\$ 75,868	\$ 69,245	\$ 565,321

(1) Money market funds and short-term investments include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. The Foundation invests in these assets to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The Foundation has not experienced such losses on these funds.

(2) For investments in U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered Level 2. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. The Foundation invests in these assets to protect in the event of sudden interest rate changes as well as to maintain liquidity for spending needs and unfunded commitment liability.

(3) In general, equity securities traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the Nasdaq

Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. Equities are classified as Level 1. The Foundation invests in equities to gain exposure to the overall direction of global equity markets.

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

(5) Long / short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

in these categories are off-shore investment vehicles. The investment managers, as noted in the audited financial statements, value the assets held in the fund at all hierarchy levels. However, the Foundation's subscription agreement locks up its investment for a period of time and does not allow for sale to another. Also, early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, the Foundation does not have the ability and, therefore, has classified investments in those vehicles as Level 3. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding commitments to this asset category.

- (6) Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in non-marketable securities of new companies or companies considered to be in the early stages of growth. Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. Investments in private equity investment companies and funds are presented at fair value as approved by the

Foundation's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or manager generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by the Foundation's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the Foundation's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2010 unfunded commitments within the private capital category and the real estate and energy and natural resources category equal approximately \$51 million and \$63 million, respectively.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

Significant Unobservable Inputs (Level 3)

Fair value recorded at June 30, 2008	\$ 808,259
Unrealized losses	(232,295)
Realized losses	(3,745)
Net purchases (sales)	(6,898)
Fair value recorded at June 30, 2009	\$ 565,321
Unrealized gains	56,846
Realized gains	20,367
Net purchases	3,036
Fair value recorded at June 30, 2010	\$ 645,570

The fair value and cost of investments at June 30 were as follows (in thousands):

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 25,895	\$ 25,895	\$ 69,687	\$ 69,687
Corporate and foreign bonds	89,715	87,569	27,076	27,102
Equities	4,982	5,280	6,181	8,071
United States Treasury notes and bonds	5,208	5,050	15,633	15,677
United States Agencies	3,290	3,135	9,017	8,922
Collateralized mortgage obligations/asset and mortgage backed securities	10,527	10,114	17,519	18,019
Absolute return	179,564	137,619	176,793	153,466
Long/short equity hedge funds	225,305	189,094	204,765	194,379
Private capital	95,318	103,542	66,136	94,611
Real estate and energy and natural resources	145,383	169,905	117,627	138,235
Totals	\$ 785,187	\$ 737,203	\$ 710,434	\$ 728,169

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

Of the fair value noted above at June 30, 2010 and 2009, \$680.3 million and \$611.4 million, respectively, is invested in the endowment pool and \$97.5 million and \$87.4 million, respectively, is invested in the operating portfolio. There are \$7.4 million and \$11.6 million in investments not invested with the pools at June 30, 2010 and 2009, respectively.

The Foundation committed \$458 million to private capital, real estate, and energy and natural resource partnerships of which \$344 million and \$290.0 million has been called as of June 30, 2010 and 2009, respectively. These commitments are to be funded through transfers from other investments and new cash.

4. Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash, cash equivalents, and investments. The trust division of one financial institution holds these assets as custodian. The total deposits at this institution exceed the amount guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized. However, as held by the trust division, they are not attachable by the creditors of the financial institution. The Foundation performs periodic evaluations of this institution for relative credit standing. At June 30, 2010 and 2009, the custodian held approximately \$106.8 million and \$141.0 million, respectively, in trust. Other assets are held by individual fund administrators and within the partnerships.

5. Contributions Receivable

As of June 30, 2010 and 2009, contributors to the Foundation unconditionally promised to give approximately \$17.2 million and \$21 million, respectively.

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

	2010	2009
Within one year	\$ 10,047	\$ 9,304
One to five years	6,720	11,105
More than five years	383	581
Subtotal	17,150	20,990
Less: present value component	956	1,500
Net contributions receivable	\$ 16,194	\$ 19,490

The discount rates used to calculate the present value component:

	For the pledge year ended June 30,	
	1-5 years	5-plus years
2010	3.25%	3.25%
2009	5.75%	6.75%

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately \$0.8 million at June 30, 2010 and 2009, respectively.

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 June 30, 2010 and 2009. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$768,000 and \$758,000 and cash surrender values of approximately \$228,000 and \$213,000 at June 30, 2010 and 2009, respectively.

Bequests and Intentions (Unaudited)

Contributors have informed the Foundation of intentions to give approximately \$15.8 million at June 30, 2010 and 2009, respectively. 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 1,400 individual funds 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 Trustees 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 of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with MUPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the Institution 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 Institution
- (7) The investment policies of the Foundation

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

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

2010	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-Restricted Endowment Funds	\$ 10,785	\$ 9,349	\$ 141,376	\$ 161,510
Board-Designated Endowment Funds	4,464	2,071	—	6,535
Total Funds	\$ 15,249	\$ 11,420	\$ 141,376	\$ 168,045

2009	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-Restricted Endowment Funds	\$ 10,386	\$ 7,633	\$ 143,845	\$ 161,864
Board-Designated Endowment Funds	4,731	3,375	—	8,106
Total Funds	\$ 15,117	\$ 11,008	\$ 143,845	\$ 169,970

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

2010	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of the year	\$ 15,117	\$ 11,008	\$ 143,845	\$ 169,970
Investment Return				
Investment Income	338	153	(286)	205
Net Appreciation (Depreciation) (realized and unrealized)	1,876	1,168	(3,564)	(520)
Total Investment Return	2,214	1,321	(3,850)	(315)
Contributions	18	887	2,009	2,914
Appropriation of endowment assets for expenditure	(881)	(1,001)	—	(1,882)
Transfers to create Board designated endowment funds	(1,219)	(795)	(628)	(2,642)
Endowment net assets, end of year	\$ 15,249	\$ 11,420	\$ 141,376	\$ 168,045

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

2009	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of the year	\$ 19,932	\$ 16,796	\$ 197,189	\$ 233,917
Investment Return				
Investment Income	419	165	462	1,046
Net Depreciation (realized and unrealized)	(5,497)	(5,751)	(59,634)	(70,882)
Total Investment Return	(5,078)	(5,586)	(59,172)	(69,836)
Contributions	457	434	8,357	9,248
Appropriation of endowment assets for expenditure	(194)	(619)	(1,869)	(2,682)
Transfers to create Board designated endowment funds	—	(17)	(660)	(677)
Endowment net assets, end of year	\$ 15,117	\$ 11,008	\$ 143,845	\$ 169,970

Permanently Restricted Net Assets — Endowment Funds

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

	2010	2009
Academic Programs	\$ 37,695	\$ 32,243
Student Support	71,584	76,927
University Advancement	385	402
Research	2,052	2,151
Faculty Support	29,660	32,122
Total	\$ 141,376	\$ 143,845

Temporarily Restricted Net Assets — Endowment Funds

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

	2010	2009
Academic Programs	\$ 1,843	\$ 1,124
Student Support	8,107	7,778
Research	261	931
Faculty Support	1,209	1,175
Total	\$ 11,420	\$ 11,008

Endowment Fund with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. In accordance with Generally Accepted Accounting Principles, deficits of this nature that are reported in unrestricted net assets were approximately \$3.6 million and \$8.0 million as of June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Return Objectives and Risk Parameters

USMF has adopted investment and spending policies for the Endowment that seek to provide a steady and sustainable distribution of funds to support operations at our various institutions. The Committee governs according to fundamental investment principles, approved by the Investment Committee and USMF Board of Directors, with the objective of preserving capital as adjusted for inflation and producing an annualized real return of at least 5% over longer measurement periods. An additional goal is to produce investment results that will rank in the top 25% of institutional investors over a 3-year time horizon as defined by the Wilshire Trust Universe Comparison services.

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

Strategies Employed for Achieving Objectives

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public securities, private securities, real assets, and bonds and cash. The asset allocation target ranges inclusive of these securities as of May, 2010 is as follows:

Categories	Ranges
Global Equities	35% – 55%
Multi Strategy & Opportunistic Strategies	20% – 35%
Real Assets	20% – 30%
Cash & Bonds	5% – 15%

The Endowment Portfolio is constructed based on the following principles:

(1) Allocation: A high allocation to equities and equity-related investments is required to support spending while preserving the purchasing power of the endowment. The Investment Committee understands that a high commitment to equities may result in periods of diminished purchasing power and higher short-term volatility. All hedged equities will be considered equities. The Real Assets portfolio is designed to maintain value in the endowment in periods of prolonged inflation. The primary purpose of the fixed income portfolio is to help maintain spending distributions from the endowment during a period of prolonged economic contraction, without having to sell equities or other assets at depressed prices to do so.

(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 Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The Investment, 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 allocations 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 Trustees has authorized a formulaic approach to determine the annual spending rate. The spending rate 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 no more than 5% or less than 4% of the moving average market value. Spending rates may not violate any donor restrictions.

a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using

a moving average as each year the first four quarters drop off and the most recent four quarters are added.

b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI).

The spending rates for 2010 and 2009 were 4.73% and 4.33%, respectively. The approved spending rate for 2011 is 5%.

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 carry over for all unspent appropriated funds as of June 30 for all years. In the event that there is no spending for two consecutive years, a special request must be made to continue carry-over of unspent appropriated funds 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):

	2010	2009
Academic Programs	\$ 28,660	\$ 28,431
Student Support	19,112	18,519
University Advancement	1,715	1,896
Research	9,711	10,089
Faculty Support	2,349	1,761
Total	\$ 61,547	\$ 60,696

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 permanent 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):

	2010	2009
Academic Programs	\$ 10,369	\$ 11,129
Student Support	8,942	7,785
University Advancement	1,040	646
Research	3,783	4,710
Faculty Support	2,363	2,883
Total	\$ 26,497	\$ 27,153

Net assets released allowed by donors on the Consolidated Statement of Activities and Changes in Net Assets for the year ended June 30, 2009 include adjustments of approximately \$1.9 million, representing a release of previously recorded permanently restricted net assets into temporarily restricted and unrestricted net assets. These adjustments relate to Title III Grant funding received from the Federal Government. These adjustments are not material to the financial statements.

Notes to Consolidated Financial Statements

(June 30, 2010 and 2009)

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 the 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 the plan. The Foundation established a 457(b) plan for top executives in 2002. Total pension expense for the years ended June 30, 2010 and 2009 was approximately \$213,000 and \$234,000, 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 do not meet the reporting criteria set forth in accounting principles generally accepted in the United States of America.

11. 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, 2010 and 2009, therefore, no provision for income taxes had been made. The Foundation paid approximately \$25,000 in taxes attributable to fiscal year 2009.

The FASB issued guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions, effective for financial statements for fiscal years beginning after December 15, 2008. This guidance 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. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Effective July 1, 2009, USMF adopted this guidance, and there was no impact on the financial statements upon adoption. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2006.

As the USMF Corporation (see Note 15) is in a net operating loss position for the years ended June 30, 2010 and 2009, there is an estimated \$394,000 refund of taxes paid for the year ended June 30, 2008 from a net operating loss carry back. There remains a net operating loss of approximately \$1.6 million available for carryback to 2007. After the carryback, the USMF Corporation will have \$685,000 available to carryforward to future years for tax purposes.

12. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately \$4.5 million and \$4.6 million as of June 30, 2010 and 2009, respectively.

13. Related Party Transactions

Various members of the Board of Trustees 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 Trustees in entities in which the Foundation has also invested, business relationships between the Trustees and entities in which the Foundation has invested, employment of the Trustees by an investment manager or one of its affiliates, and participation by the Trustees on the Board of Directors of an investment manager.

Members of the Board of Trustees do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those Trustees are associated. Approximately \$47.1 million or 5.8% and \$23.9 million or 3.2% of the Foundation's total assets of \$817 million and \$752 million at June 30, 2010 and 2009, respectively, are invested in entities that have associations with members of the Foundation's Board of Trustees.

14. Financial Guarantee

On August 22, 2003, the Foundation entered into a Guaranty Agreement, pursuant to which it guaranteed the full and prompt payment and performance of The University of Maryland Alumni Association's obligations to the Maryland Economic Development Corporation for its building program. Future events could occur that lead to the execution of these provisions against the Foundation. This guarantee is limited to \$3.0 million, which shall be automatically reduced by reductions in the amount of the outstanding principal either by redemption or by the application of principal installments. A \$402,500 principal payment was made in each of the years ended June 30, 2010 and 2009 by the Alumni Association. A total of \$2,012,500 has been paid toward the principal by the Alumni Association. Management has evaluated the fair value of this guarantee and does not believe it has a material effect to the Foundation's financial position.

15. 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, 2010 and 2009, this corporation held \$12.9 million and \$14.1 million in assets and has net operating losses of \$4.5 million and \$7.2 million for the years ended June 30, 2010 and 2009, respectively, which are reflected in the consolidated financial statements.

16. Subsequent Events

Subsequent events have been evaluated by management through September 16, 2010, the date the financial statements were available to be issued. Effective July 1, 2010, the Foundation transferred the assets of AJR to the University of Maryland, College Park ("UMCP"). As part of the agreement, UMCP agreed to reimburse the Foundation approximately \$395,000 which is the amount the Foundation subsidized the operations of AJR due to net operating losses.

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