

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the years ended June 30, 2003 and 2002

AND

REPORT THEREON

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of The University of Maryland Foundation, Inc. (the Foundation) at June 30, 2003 and 2002, and the changes in its net assets and its 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 which require that we plan and perform the audit 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.

September 5, 2003

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

BALANCE SHEETS

As of June 30, 2003 and 2002

(in thousands)

ASSETS	2003	2002
Current assets:		
Cash and cash equivalents	\$ 359	\$ 677
Accounts receivable	7,429	5,866
Receivable from investments sales	1,133	4,489
Accrued interest receivable	1,444	1,975
Contributions receivable – current portion	9,091	10,574
Other receivables - current portion	9	8
Other current assets	160	301
Total current assets	<u>19,625</u>	<u>23,890</u>
Investments:		
Endowment	164,092	167,834
Operating	54,832	52,907
Held for other foundations	180,830	165,028
Total investments	<u>399,754</u>	<u>385,769</u>
Other assets:		
Contributions receivable – long term portion	10,148	6,134
Contributions receivable from remainder trusts	4,834	4,857
Angus breeding herd, trademark, logo, records, and data bank	1,180	1,180
Real and personal property	4,676	5,034
Assets held for sale	2,994	-
Other receivables - long term portion	217	226
Cash surrender value of life insurance	177	161
Office equipment and furniture, net of accumulated depreciation of \$781 and \$757, respectively	321	318
Unamortized goodwill	83	87
Total other assets	<u>24,630</u>	<u>17,997</u>
Total assets	<u>\$ 444,009</u>	<u>\$ 427,656</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,036	\$ 2,932
Payable from investment purchases	3,286	7,378
Deferred income	91	91
Total current liabilities	<u>6,413</u>	<u>10,401</u>
Other liabilities:		
Payables under split-interest agreements	5,622	5,897
Due to other foundations	180,830	165,028
Total other liabilities	<u>186,452</u>	<u>170,925</u>
Total liabilities	<u>192,865</u>	<u>181,326</u>
Net assets:		
Unrestricted	54,752	59,711
Temporarily restricted	46,462	43,843
Permanently restricted	149,930	142,776
Total net assets	<u>251,144</u>	<u>246,330</u>
Total liabilities and net assets	<u>\$ 444,009</u>	<u>\$ 427,656</u>

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

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

STATEMENT OF ACTIVITIES for the year ended June 30, 2003

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions and grants	\$ 2,976	\$ 16,865	\$ 8,724	\$ 28,565
Investment income	3,019	1,893	-	4,912
Other program income	2,238	-	-	2,238
Courses and conferences	642	-	-	642
Sales and services	1,726	-	-	1,726
Change in value of split interest agreements	3	60	(723)	(660)
Realized and unrealized gains and losses on investments and other	1,878	4,246	1,362	7,486
Unrealized gains on assets held for sale	463	-	1,119	1,582
Net assets released from restrictions	20,258	(20,258)	-	-
Total revenues	33,203	2,806	10,482	46,491
Expenses:				
Program	27,383	-	-	27,383
General and administrative-program support	5,757	-	-	5,757
General and administrative	1,790	-	-	1,790
Fundraising	2,007	-	-	2,007
Editorial, programming and production	1,225	-	-	1,225
Total expenses	38,162	-	-	38,162
Change in net assets before transfers	(4,959)	2,806	10,482	8,329
Transfers per Board resolution	-	(187)	(3,328)	(3,515)
Change in net assets	(4,959)	2,619	7,154	4,814
Net assets at beginning of year	59,711	43,843	142,776	246,330
Net assets at end of year	\$ 54,752	\$ 46,462	\$ 149,930	\$ 251,144

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

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

STATEMENT OF ACTIVITIES for the year ended June 30, 2002 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions and grants	\$ 629	\$ 14,459	\$ 9,212	\$ 24,300
Investment income	3,355	401	3,315	7,071
Other program income	1,836	396	-	2,232
Courses and conferences	905	333	-	1,238
Sales and services	1,516	86	-	1,602
Change in value of split interest agreements	105	113	(1)	217
Realized and unrealized gains and losses on investments and other	-	-	-	-
	(8,342)	(1,988)	(10,559)	(20,889)
Net assets released from restrictions	25,640	(25,640)	-	-
Total revenues	25,644	(11,840)	1,967	15,771
Expenses:				
Program	30,278	-	-	30,278
General and administrative-program support	4,260	-	-	4,260
General and administrative	1,540	-	-	1,540
Fundraising	2,972	-	-	2,972
Editorial, programming and production	1,377	-	-	1,377
Total expenses	40,427	-	-	40,427
Change in net assets before transfers	(14,783)	(11,840)	1,967	(24,656)
Transfers per Board resolution	(1,082)	(497)	(7,717)	(9,296)
Change in net assets	(15,865)	(12,337)	(5,750)	(33,952)
Net assets at beginning of year	75,576	56,180	148,526	280,282
Net assets at end of year	\$ 59,711	\$ 43,843	\$ 142,776	\$ 246,330

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

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

STATEMENTS OF CASH FLOWS for the years ended June 30, 2003 and 2002 (in thousands)

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ 4,814	\$ (33,952)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Net realized and unrealized gain/loss on investments	(7,487)	20,730
Realized and unrealized loss on investments for split interest agreements	364	555
Realized and unrealized gain/loss on managed funds	(5,852)	13,759
Realized and unrealized loss on transfers per Board resolution	23	89
Realized and unrealized gain on property held for sale	(1,582)	-
Depreciation and amortization	37	44
Bad debt expense	885	383
Gifts of investments	(375)	(593)
Gifts of real and personal property	(962)	(476)
Loss on disposal of equipment	2	7
Increase in accounts receivable	(1,563)	(5,520)
Decrease in accrued interest receivable	531	199
(Increase) decrease in contributions receivable	(3,416)	5,021
Decrease in contributions receivable from remainder trusts	23	712
(Increase) decrease in other current assets	141	(293)
Increase in cash surrender value of life insurance	(16)	(13)
Increase in accounts payable and accrued expenses	104	1,519
Decrease in deposits	-	(30)
Decrease in deferred income	-	(15)
Increase in due to other foundations	15,802	17,852
Contributions restricted for long-term investment	(5,824)	(10,609)
Interest and dividends restricted for long-term investment	-	(3,627)
Total adjustments	(9,165)	39,694
Net cash and cash equivalents (used in) provided by operating activities	(4,351)	5,742
Cash flows from investing activities:		
Purchases of investments	(890,068)	(891,777)
Sales of investments	889,409	870,733
Payments from notes receivable	8	148
Decrease in receivables from investment sales	3,356	3,688
Decrease in payable from investment purchases	(4,092)	(1,101)
Purchases of equipment	(38)	(17)
Purchases of real property	(91)	(123)
Sales of real property	-	71
Net cash and cash equivalents used in investing activities	(1,516)	(18,378)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	5,824	10,609
Interest and dividends restricted for long-term investment	-	3,627
Decrease in payables under split-interest agreements	(275)	(1,413)
Net cash and cash equivalents provided by financing activities	5,549	12,823
Net increase (decrease) in cash and cash equivalents	(318)	187
Cash and cash equivalents at beginning of year	677	490
Cash and cash equivalents at end of year	\$ 359	\$ 677

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

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of operations

The University of Maryland Foundation, Inc. (the Foundation), a separately incorporated independent Foundation, manages funds received for the benefit of the institutions of the University System of Maryland. 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 University System of Maryland or for all of the education and support activities that may be conducted by the University System of Maryland or the University of Maryland Medical System. The Foundation is comprised of three separately accounted-for divisions: the University of Maryland Foundation Funds, the American Journalism Review, and the Wye Herd.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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.

Equipment

Equipment is carried at cost. The Foundation's policy is to charge all additions 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. Asset and accumulated depreciation accounts are relieved when properties are sold or otherwise disposed.

Investments

Investment securities are valued based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar

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NOTES TO FINANCIAL STATEMENTS

securities or other reasonable valuation methodologies. The change in net unrealized gains or losses on investment securities is reflected in the statement of activities.

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 trade 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 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.

As a result of market declines the fair value of certain donor restricted endowments is less than the historical cost value of such funds (“underwater”) by \$3.1 million and \$1.2 million at June 30, 2003 and 2002, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future 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 permanently restricted net assets for the endowments that required unspent earnings to revert to principal or temporarily restricted net assets.

The Foundation has a spending rate rule for its investments held for endowment in order to preserve purchasing power of the assets, to protect against erosion of nominal principal, and to promote stability and predictability of annual budgeting. The spending rate rule determines the amount to be distributed for current spending with the provision that any amounts remaining after the distributions be reinvested or allocated in accordance with the donor’s direction. The Board of Directors adopted a total return spending policy, which provides for a spending floor of 4.5% and a spending cap of 6.5% of a trailing average unit market value of the pooled investments, subject to restriction by donor or by law. For FY03, the Board revised the spending policy. Funds termed “underwater” did not receive spendable income as computed under the total return spending policy. Those Funds either received a lesser percentage (3% or 4% depending on the

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NOTES TO FINANCIAL STATEMENTS

institution) or received no spendable income. For those funds receiving no allocation, the Foundation provided one-half of the computed spendable income from its reserves for program support.

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.

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 the fair market value at the date of the gift. These assets are held for investment purposes and are not depreciated. Those assets held for sale are reported separately and adjusted to market value when appraised.

Goodwill

Goodwill in the American Journalism Review is amortized using the straight-line method over a 40-year life. Amortization expense of \$3,485 was charged to operations for each of the years ended June 30, 2003 and 2002.

Expenses

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of an institution's activities or for the Foundation's business operations and have been classified as such.

Due to other foundations

Due to other foundations consists of funds held by the Foundation on behalf of other foundations. These funds are commingled and managed in the unrestricted funds of the Foundation. The Foundation assesses these other foundations an annual management fee based on the fair value of endowment funds administered (0.4%) except those funds termed "underwater", which were not assessed. Such fees totaled \$253,000 and \$382,000 for the years ended June 30, 2003 and 2002, respectively.

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NOTES TO FINANCIAL STATEMENTS**

The amounts due to other foundations at June 30, 2003 and 2002 are as follows (in thousands):

	2003	2002
Coppin State College Development Foundation, Inc.	\$ 4,343	\$ 4,120
Bowie State University Foundation	2,428	2,357
UMCP Alumni Association	937	1,059
Alumni Association International	3,209	3,300
University of Baltimore Foundation	2,833	2,734
Towson University Foundation	533	10,979
Frostburg State University Foundation	5,931	5,874
UMCP Foundation	101,277	85,004
UMB Foundation	59,221	49,498
National Association of System Heads	118	103
Total	\$ 180,830	\$ 165,028

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

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these assets can be unrestricted or restricted based on donor stipulation.

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

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.

Split-interest agreements

The Foundation receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts, and charitable gift annuities. These include agreements for which the Foundation acts as trustee and holds the assets, as well as agreements where the Foundation has an interest in the trust, but is not the trustee. 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 UNIVERSITY OF MARYLAND FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

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

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.

When the Foundation is trustee, a liability is recognized for the portion of the split-interest agreements to be paid to the beneficiary under the terms of the agreements.

Administrative fees

Foundation management designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged as follows, depending on the category of investment portfolio assets.

Investments - operating – Fees for administrative expenses are not assessed on these funds. Professional investment fees are paid to the investment managers prior to the distribution of income.

Investments - endowment - Professional investment fees are paid to the investment managers prior to the distribution of income. The Foundation annually assesses each endowment account for operating and administrative expenses and institution fund-raising support 0.4% and 1.6%, respectively, based on market value of assets managed. In FY03, “underwater” funds were not assessed.

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. These estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported

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NOTES TO FINANCIAL STATEMENTS

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 these amounts due to the differences between the assumptions used in arriving at the present value and the amount actually collected.

3. Investments

The fair value and cost of investments at June 30, 2003 and 2002 were as follows (in thousands):

	2003		2002	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 66,569	\$ 66,773	\$ 24,063	\$ 24,063
Corporate and foreign bonds	52,939	50,030	50,556	51,095
Equities	128,690	123,832	160,080	167,101
U.S. Treasury notes and bonds	17,514	17,070	25,122	24,599
U.S. Agencies	13,307	12,749	8,956	8,642
CMOs /asset and mortgage backed securities	24,540	24,019	54,306	53,076
Merger arbitrage/distressed securities	27,112	22,000	23,648	22,000
Long/short equity hedge funds	21,715	25,000	15,023	15,000
Private capital	23,083	22,123	11,252	11,606
Equity hedge / market neutral	13,678	16,407	12,763	16,259
Real estate	10,607	9,823	0	0
Totals	<u>\$ 399,754</u>	<u>\$ 389,826</u>	<u>\$ 385,769</u>	<u>\$ 393,441</u>

Merger arbitrage involves the purchase and sale of shares in companies that are the subject of publicly announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies or recapitalizations. Distressed securities are discounted securities of a company in financial distress or bankruptcy. Long/short strategies take long and short positions in primarily US publicly traded equity securities in an effort to achieve attractive returns with moderate risk. The equity hedge investment consists of a core equity portfolio complemented with index call and put options designed to help manage portfolio risk. 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. The Foundation committed \$68.9 million to private capital partnerships and real estate

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of which \$23.1 million has been called. These commitments are to be funded through transfers from other investments.

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, 2003 and 2002, the custodian held approximately \$304.9 million and \$323.6 million, respectively, in trust.

5. Contributions receivable

As of June 30, 2003 and 2002, contributors to the Foundation unconditionally promised to give approximately \$ 20.9 million and \$18.1 million, respectively.

Promised contributions are due as follows (in thousands):

	2003	2002
Within one year	\$ 9,567	\$ 11,040
One to five years	10,973	6,682
More than five years	293	404
Subtotal	20,833	18,126
Less: present value component	1,594	1,418
Net contributions receivable	\$ 19,239	\$ 16,708

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The discount rates used to calculate the present value component at June 30, 2003 and 2002, respectively, were:

Pledge Year	1-5 Years	5 Plus Years
FY03	2.88%	5.63%
FY02	2.88%	4.38%
FY01	4.22%	5.07%
FY00	6.375%	6.75%
FY99	5.65%	5.92%
FY98	5.10%	5.10%
FY97	4.53%	4.53%
FY96	6.50%	6.50%
FY95	6.50%	6.50%

This rate is based on the yield at year-end of the appropriate U.S. Treasury Note.

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately \$4.8 million and \$4.9 million at June 30, 2003 and 2002, respectively, based on the latest available information from outside trustees.

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 million and \$3 million at June 30, 2003 and 2002 respectively. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$1.3 million, and cash surrender values of approximately \$177,405 and \$161,200 at June 30, 2003 and 2002, respectively.

Bequests and intentions

Contributors have informed the Foundation of intentions to give of approximately \$23 million and \$30.8 million at June 30, 2003 and 2002, respectively. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

7. Restricted net asset activity

Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Academic programs	\$ 26,872	\$ 27,086
Student support	5,946	3,058
University advancement	610	583
Research	10,037	11,754
Faculty support	<u>2,997</u>	<u>1,362</u>
Total	<u>\$ 46,462</u>	<u>\$ 43,843</u>

Permanently restricted net assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for the following purposes at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Academic programs	\$ 37,101	\$ 30,257
Student support	69,127	66,768
University advancement	12,848	11,221
Research	1,217	1,140
Faculty support	<u>29,637</u>	<u>33,390</u>
Total	<u>\$ 149,930</u>	<u>\$ 142,776</u>

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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. Such net assets were released as follows during the years ended June 30 (in thousands):

	2003	2002
Time restricted	\$ -	\$ 2,300
Academic programs	6,925	12,059
Student support	3,856	3,664
University advancement	236	896
Research	7,710	4,611
Faculty support	1,531	2,110
Total	\$ 20,258	\$ 25,640

8. 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. 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, 2003 and 2002 was approximately \$157,800 and \$145,600, respectively.

9. Contributed services

A number of unpaid volunteers contributed their time to the Foundation. 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.

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10. 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. Since the Foundation had no material unrelated business income for the years ended June 30, 2003 and 2002, no provision for income taxes has been made. The University System of Maryland was selected for an IRS audit, and the IRS has extended the audit to include foundations affiliated with the system. As such, the Foundation is currently responding to IRS information requests.

11. Charitable gift annuity requirements

As required by the State of Maryland, the Foundation internally restricted cash and investments in excess of annuity liabilities of approximately \$5.6 million and \$5.8 million in FY03 and FY02 respectively.

12. University of Maryland College Park and University of Maryland Baltimore Foundations

During FY99, the Maryland State Legislature passed legislation allowing each University System of Maryland institution to establish its own separate, affiliated foundation. In FY00, the University of Maryland College Park Foundation (UMCPF) and the University of Maryland Baltimore Foundation (UMBF) were incorporated. The Foundations have signed investment management agreements whereby funds held by UMCPF and UMBF will be invested with the Foundation according to the policies set by the Foundation's Finance Committee.

Approximately \$78 million and \$80 million of the Foundation's endowment assets and \$7.2 million and \$9.8 million of its pledges receivable are designated for the benefit of UMCP as of June 30, 2003 and 2002, respectively. For the years ended June 30, 2003 and 2002, respectively, donors requested the transfer of approximately \$2.4 million and \$2.2 million of these endowment assets and \$-0- and \$300,000 of these pledges receivable to the UMCPF. As of September 5, 2003 approximately \$1 million requested is pending.

Approximately \$23.5 million and \$23.5 million of the Foundation's endowment assets and \$312,000 and \$358,000 of its pledges receivable are designated for the benefit of UMB as of June 30, 2003 and 2002 respectively. Through June 30, 2003 and 2002 donors requested the transfer of approximately \$1.0 million and \$6.3 million of these endowment assets and \$0 and \$67,400 of

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

these pledges receivable to the UMBF. As of September 5, 2003 approximately \$16,000 requested is pending.

The amount of any future transfers of endowment assets or pledges currently included in the assets of the Foundation into either of the new foundations, or to any other foundations formed pursuant to the legislation described above, is not estimable.

13. Related party transactions

As of June 30, 2003 and 2002, respectively, approximately \$8.3 million and \$8.3 million of the Foundation's investments are invested with firms of which Board members are partners. In addition, as of June 30, 2003 and 2002, respectively, approximately \$54.7 million and \$48 million are invested by wholly owned subsidiaries of an investment services company. A Foundation Board member is employed by another wholly owned subsidiary of that investment service's company, which itself does not do business with the Foundation. The Foundation is a limited partner in a private equity fund with an investment market value of \$1.3 million and \$561,000 as of June 30, 2003 and 2002, respectively, the general partner of which includes a Foundation Board member on its Board.

14. Commitments and contingencies

During the course of its operations, the Foundation may be exposed to various forms of litigation, claims and assessments. Management is not aware of any such matters that could have a material effect on the Foundation's financial position, change in net assets, or cash flows.

15. Option Arrangement

On November 27, 2002 the Foundation (the seller) signed an option agreement with AV Williams Property LLC (the buyer) to purchase for \$1.888 million all of the Foundation's right, title and interest in 207 acres known as the "Hall Property". Until exercised said purchase price will increase in the same proportion as the consumer price index. The option term expires on October 1, 2007 but is extendable for two successive terms of two years each. In consideration of the seller's option, the buyer agrees to pay on behalf of the seller all pre-development costs attributable to the extension of Maryland Route 43 which shall not be applied to the payment of the purchase price. In exchange, the Foundation agreed to allow the seller the right of way for roads and easements.

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

This property, included in Assets Held for Sale, has been adjusted to fair market value as of June 30, 2003.

16. Subsequent Event

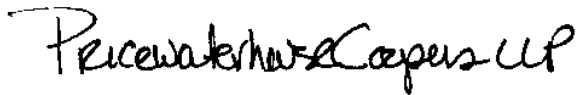
On August 22, 2003 the Foundation entered into a Guaranty Agreement pursuant to which it guaranteed the full and prompt payment and performance of The University of Maryland Alumni Association's obligations to the Maryland Economic Development Corporation for its building program. This guarantee is limited to \$3 million, which shall be automatically reduced by reductions in the amount of the outstanding principal either by redemption or by the application of principal instalments. The Foundation secured an indemnification agreement from the University of Maryland College Park Foundation in relation to this transaction.

SUPPLEMENTARY INFORMATION

Report of Independent Auditors on Supplementary Information

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

The report on our audits of the basic financial statements of The University of Maryland Foundation, Inc. as of and for the years ended June 30, 2003 and 2002, appears on page one of this document. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying University of Maryland Foundation Funds schedules of program, general and administrative and fundraising expenses, The American Journalism Review balance sheet, The American Journalism Review statement of activities, and The American Journal Review schedules of general and administrative, and of editorial, programming and production expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

September 5, 2003

THE UNIVERSITY OF MARYLAND FOUNDATION FUNDS

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE UNIVERSITY OF MARYLAND FOUNDATION FUNDS
SCHEDULE OF PROGRAM, GENERAL AND ADMINISTRATIVE,
AND FUNDRAISING EXPENSES
for the year ended June 30, 2003

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 93,907	\$ 20,975	\$ 1,678
Bad debt	-	884,621	-
Building – construction and repair	1,393,816	182,722	-
Campus sponsored programs	-	30,776	6,743
Conferences	57,581	13,267	14,948
Contract expense	3,423,699	-	-
Delivery	52,464	6,016	89,189
Depreciation	13,686	10,435	7,856
Dues and memberships	5,369	23,395	13,905
Educational programs	2,414,219	-	-
Equipment	1,741,103	131,163	80,338
Heritage club	-	16,426	-
Insurance	1,089	90,417	4,709
Investment fees	-	3,269,853	-
Legal and professional	-	107,754	7,584
Miscellaneous	130,338	130	-
Office expense	32,049	26,799	12,135
Office rent	100,195	7,585	-
Personnel	1,771,410	1,188,984	566,026
Printing	258,898	161,714	433,317
Property	-	20,502	-
Public relations and promotion	50,188	961,063	244,550
Relocation and recruitment	2,230	23,886	8,305
Royalties	12,805	-	-
Services	3,050,111	219,971	214,713
Student support	3,871,134	-	-
Telephone	19,302	4,975	2,670
Transfers to The University System of Maryland	8,583,278	4,134	213,460
Travel	303,309	32,629	84,261
Total	<u>\$ 27,382,180</u>	<u>\$ 7,440,192</u>	<u>\$ 2,006,387</u>

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE UNIVERSITY OF MARYLAND FOUNDATION FUNDS
SCHEDULE OF PROGRAM, GENERAL AND ADMINISTRATIVE,
AND FUNDRAISING EXPENSES
for the year ended June 30, 2002

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 71,392	\$ 1,375	\$ 12,892
Bad debt	-	382,965	-
Building – construction and repair	3,550,753	150,687	-
Campus sponsored programs	-	4,594	4,703
Conferences	77,985	19,889	43,050
Contract expense	2,985,406	-	-
Delivery	63,813	4,744	67,726
Depreciation	17,061	9,319	5,188
Dues and memberships	6,588	36,682	15,695
Educational programs	1,834,317	-	-
Equipment	1,229,617	55,091	227,038
Heritage club	-	15,394	-
Insurance	663	80,537	4,316
Investment fees	-	2,093,376	-
Legal and professional	-	99,017	263
Miscellaneous	301,093	187	-
Office expense	40,488	21,329	10,252
Office rent	301,808	811	139
Personnel	1,787,750	1,130,578	462,069
Printing	290,675	178,476	411,572
Property	-	36,245	-
Public relations and promotion	104,560	933,757	471,496
Relocation and recruitment	12,123	43,682	88,169
Royalties	4,625	1,960	-
Services	3,552,887	280,217	359,197
Student support	3,268,460	-	-
Telephone	32,829	875	38,744
Transfers to The University System of Maryland	10,551,968	11,938	618,008
Travel	190,965	11,962	131,227
Total	<u>\$ 30,277,826</u>	<u>\$ 5,605,687</u>	<u>\$ 2,971,744</u>

THE AMERICAN JOURNALISM REVIEW

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE AMERICAN JOURNALISM REVIEW
BALANCE SHEET
as of June 30, 2003

ASSETS

Current assets:	
Cash and cash equivalents	\$ 22,638
Accounts receivable, net of allowance for doubtful accounts of \$4,543	24,679
Total current assets	<u>47,317</u>
Other assets:	
Office equipment and furniture, net of accumulated depreciation of \$80,444	4,080
Goodwill, net of accumulated amortization of \$56,044	83,338
Total other assets	<u>87,418</u>
Total assets	<u><u>\$ 134,735</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 67,489
Due to The University of Maryland Foundation, Inc.	115,765
Total current liabilities	<u>183,254</u>
Deferred circulation/advertising income	90,995
Total liabilities	<u>274,249</u>
Net assets (deficit):	
Unrestricted	(139,514)
Temporarily restricted	-
Total net assets	<u>(139,514)</u>
Total liabilities and net assets	<u><u>\$ 134,735</u></u>

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE AMERICAN JOURNALISM REVIEW
STATEMENT OF ACTIVITIES
for the year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Display advertising	\$ 377,837	\$ -	\$ 377,837
Subscription income earned	105,420	-	105,420
Web and newsstand sales	5,685	-	5,685
List rental income	490	-	490
Royalty income	12,170	-	12,170
Other income	7,732	-	7,732
Transfers from UMF	562,235	-	562,235
Released from restrictions	240,000	(240,000)	-
Total revenues	1,311,569	(240,000)	1,071,569
Expenses:			
General and administrative	107,056	-	107,056
Editorial, programming and production	1,225,292	-	1,225,292
Total expenses	1,332,348	-	1,332,348
Change in net assets	(20,779)	(240,000)	(260,779)
Net assets (deficit) at beginning of year	(118,735)	240,000	121,265
Net assets (deficit) at end of year	\$ (139,514)	\$ -	\$ (139,514)

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE AMERICAN JOURNALISM REVIEW
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
for the year ended June 30, 2003

Advertising	\$ 1,471
Amortization	3,485
Audit	5,000
Bank service charges	1,800
Depreciation	1,420
Employee benefits	1,678
Equipment/repairs and maintenance	6,342
Insurance	17,453
Legal and accounting services	40,316
Office expense	8,548
Postage and delivery	4,087
Telephone	<u>15,456</u>
Total general and administrative expenses	<u>\$ 107,056</u>

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.
THE AMERICAN JOURNALISM REVIEW
SCHEDULE OF EDITORIAL, PROGRAMMING AND PRODUCTION EXPENSES
for the year ended June 30, 2003

Advertising sales costs	\$ 91,662
Circular and fulfillment costs	299,315
Editorial costs	519,147
Production costs	<u>315,168</u>
 Total editorial, programming and production expenses	 <u><u>\$ 1,225,292</u></u>