

**THE UNIVERSITY OF MARYLAND FOUNDATION, INC.**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the years ended June 30, 2004 and 2003**

**AND**

**REPORT THEREON**

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# 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, 2004 and 2003, 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, 2004

# THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

## BALANCE SHEETS

As of June 30, 2004 and 2003

(in thousands)

ASSETS	2004	2003
Current assets:		
Cash and cash equivalents	\$ 356	\$ 310
Accounts receivable	4,155	7,429
Receivable from investments sales	1,692	1,133
Accrued interest receivable	1,103	1,444
Contributions receivable – current portion	15,272	9,091
Other receivables - current portion	9	9
Other current assets	<u>342</u>	<u>208</u>
Total current assets	<u>22,930</u>	<u>19,625</u>
Investments:		
Endowment	184,159	164,092
Operating	52,327	54,832
Held for other foundations	<u>210,423</u>	<u>180,830</u>
Total investments	<u>446,909</u>	<u>399,754</u>
Other assets:		
Contributions receivable – long term portion	11,579	10,148
Contributions receivable from remainder trusts	2,402	4,834
Angus breeding herd, trademark, logo, records, and data bank	1,180	1,180
Real and personal property	4,871	4,676
Assets held for sale	2,122	2,994
Other receivables - long term portion	208	217
Cash surrender value of life insurance	202	177
Office equipment and furniture, net of accumulated depreciation of \$781 and \$757, respectively	319	321
Unamortized goodwill	<u>80</u>	<u>83</u>
Total other assets	<u>22,963</u>	<u>24,630</u>
Total assets	<u>\$ 492,802</u>	<u>\$ 444,009</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,257	\$ 3,036
Payable from investment purchases	2,205	3,286
Deferred income	88	91
Total current liabilities	<u>4,550</u>	<u>6,413</u>
Other liabilities:		
Payables under split-interest agreements	5,570	5,622
Due to other foundations	<u>210,423</u>	<u>180,830</u>
Total other liabilities	<u>215,994</u>	<u>186,452</u>
Total liabilities	<u>220,544</u>	<u>192,865</u>
Net assets:		
Unrestricted	54,844	54,752
Temporarily restricted	57,697	46,462
Permanently restricted	<u>159,717</u>	<u>149,930</u>
Total net assets	<u>272,258</u>	<u>251,144</u>
Total liabilities and net assets	<u>\$ 492,802</u>	<u>\$ 444,009</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, 2004 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions and grants	\$ 5,202	\$ 18,187	\$ 8,946	\$ 32,335
Investment income	3,076	1,707	-	4,783
Other program income	1,704	-	-	1,704
Courses and conferences	500	-	-	500
Sales and services	2,578	-	-	2,578
Change in value of split interest agreements		122	(317)	(195 )
Realized and unrealized gains and losses on investments and other	11,138	9,278	4,151	24,568
Unrealized gains on assets held for sale		-		
Net assets released from restrictions	16,374	(16,374)	-	-
Total revenues	40,572	12,920	12,781	66,273
<b>Expenses:</b>				
Program	24,262			24,262
General and administrative-program support	11,028	-	-	11,028
General and administrative	1,867	-	-	1,867
Fundraising	2,360	-	-	2,260
Editorial, programming and production	945	-	-	945
Total expenses	40,462	-	-	40,462
Change in net assets before transfers	110	12,920	12,781	25,811
Transfers per Board resolution	(18)	(1,685)	(2,994)	(4,697)
Change in net assets	92	11,235	9,787	21,114
Net assets at beginning of year	54,752	46,462	149,930	251,144
Net assets at end of year	\$ 55,844	\$ 57,697	\$ 159,717	\$ 272,258

*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)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>33,203</u>	<u>2,806</u>	<u>10,482</u>	<u>46,491</u>
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	<u>38,162</u>	<u>-</u>	<u>-</u>	<u>38,162</u>
Change in net assets before transfers	(4,959)	2,806	10,482	8,329
Transfers per Board resolution	<u>-</u>	<u>(187)</u>	<u>(3,328)</u>	<u>(3,515)</u>
Change in net assets	(4,959)	2,619	7,154	4,814
Net assets at beginning of year	<u>59,711</u>	<u>43,843</u>	<u>142,776</u>	<u>246,330</u>
Net assets at end of year	<u>\$ 54,752</u>	<u>\$ 46,462</u>	<u>\$ 149,930</u>	<u>\$ 251,144</u>

*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, 2004 and 2003

(in thousands)

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 21,114	\$ 4,814
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Net realized and unrealized gain on investments	(24,568)	(7,487)
Realized gain/loss on investments for split interest agreements	(257)	364
Realized and unrealized gain on managed funds	(15,911)	(5,852)
Realized and unrealized gain/loss on transfers per Board resolution	(776)	23
Realized and unrealized loss/gain on property held for sale	24	(1,582)
Depreciation and amortization	32	37
Bad debt expense	334	885
Gifts of investments	(340)	(375)
Gifts of real and personal property	(115)	(962)
Loss on disposal of equipment	12	2
Decrease (increase) in accounts receivable	3,274	(1,563)
Decrease in accrued interest receivable	341	531
Increase in contributions receivable	(7,946)	(3,416)
Decrease in contributions receivable from remainder trusts	2,432	23
(Increase) decrease in other current assets	(134)	92
Increase in cash surrender value of life insurance	(25)	(16)
(Decrease) increase in accounts payable and accrued expenses	(779)	104
Decrease in deferred income	(3)	-
Increase in due to other foundations	29,593	15,802
Contributions restricted for long-term investment	(6,302)	(5,824)
Interest and dividends restricted for long-term investment	-	-
Total adjustments	(21,114)	(9,214)
Net cash and cash equivalents provided by (used in) operating activities	0	(4,400)
Cash flows from investing activities:		
Purchases of investments	(944,752)	(890,068)
Sales of investments	939,450	889,409
Payments from notes receivable	9	8
(Increase) decrease in receivables from investment sales	(559)	3,356
Decrease in payable from investment purchases	(1,081)	(4,092)
Purchases of equipment	(39)	(38)
Purchases of real and personal property	(80)	(91)
Sales of real property	848	-
Net cash and cash equivalents used in investing activities	(6,204)	(1,516)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	6,302	5,824
Interest and dividends restricted for long-term investment	-	-
Decrease in payables under split-interest agreements	(52)	(275)
Net cash and cash equivalents provided by financing activities	6,250	5,549
Net increase (decrease) in cash and cash equivalents	46	(367)
Cash and cash equivalents at beginning of year	310	677
Cash and cash equivalents at end of year	\$ 356	\$ 310

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

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

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**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**

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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 \$704,000 and \$3.1 million at June 30, 2004 and 2003, 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. In September 2003, The Board of Directors adopted a total return spending policy, which provides for a spending floor of 4.5% and a spending cap of 5.0% (for FY03 the spending cap was 6.5%) of a trailing average unit market value of the pooled investments, subject to restriction by donor or by law. In FY03, the Board revised the spending policy. Funds termed “underwater” did not receive spendable income as computed under the total return spending policy. In FY03 those Funds either

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received a lesser percentage (3% or 4% depending on the 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. For FY04, the Board determined that funds termed “underwater” would not receive any spendable income as computed under the total return spending policy. 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, 2004 and 2003.

**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

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**NOTES TO FINANCIAL STATEMENTS**

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 \$177,800 and \$253,000 for the years ended June 30, 2004 and 2003, respectively.

The amounts due to other foundations at June 30, 2004 and 2003 re as follows (in thousands):

	2004	2003
Coppin State College Development Foundation, Inc.	\$ 5,892	\$ 4,343
Bowie State University Foundation	2,762	2,428
UMCP Alumni Association	810	937
Alumni Association International	3,451	3,209
University of Baltimore Foundation	3,144	2,833
Towson University Foundation	683	533
Frostburg State University Foundation	7,206	5,931
UMCP Foundation	119,019	101,277
UMB Foundation	67,321	59,221
National Association of System Heads	135	118
Total	\$ 210,423	\$ 180,830

**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.

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*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 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

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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 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

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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 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.

**Reclassifications**

Certain items in the FY03 financial statements have been reclassified to conform to the FY04 presentation.

**3. Investments**

The fair value and cost of investments at June 30, 2004 and 2003 were as follows (in thousands):

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 43,484	\$ 43,484	\$ 66,569	\$ 66,773
Corporate and foreign bonds	46,360	46,214	52,939	50,030
Equities	149,918	125,235	128,690	123,832
U.S. Treasury notes and bonds	16,888	17,118	17,514	17,070
U.S. Agencies	10,502	10,618	13,307	12,749
CMOs /asset and mortgage backed securities	10,400	10,456	24,540	24,019
Absolute Return/Market Neutral	62,458	56,295	37,719	38,407
Long/short equity hedge funds	50,974	50,000	21,715	25,000
Private capital	29,430	28,488	23,083	22,123
Real estate	26,495	22,933	10,607	9,823
Totals	\$ 446,909	\$ 410,841	\$ 399,754	\$ 389,826

Absolute Return/Market Neutral includes investments that involve 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 as well as deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. This also includes a market neutral fund that consists of a core equity portfolio complemented with index call and put options designed to help manage portfolio risk. Long/short

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strategies take long and short positions in primarily US publicly traded equity securities in an effort to achieve attractive returns with moderate 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 \$87.7 million to private capital partnerships and real estate of which \$41.7 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, 2004 and 2003, the custodian held approximately \$262.1 million and \$304.9 million, respectively, in trust.

**5. Contributions receivable**

As of June 30, 2004 and 2003, contributors to the Foundation unconditionally promised to give approximately \$ **29.9** million and \$**20.9** million, respectively.

Promised contributions are due as follows (in thousands):

	2004	2003
Within one year	\$ 16,020	\$ 9,567
One to five years	11,987	10,973
More than five years	1,891	293
Subtotal	29,899	20,833
Less: present value component	3,047	1,594
Net contributions receivable	\$ 26,852	\$ 19,239

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The discount rates used to calculate the present value component at June 30, 2004 and 2003, respectively, were:

Pledge Year	1-5 Years	5 Plus Years
FY04	1.125%	5.50%
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 \$2.4 million and \$4.8 million at June 30, 2004 and 2003, 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 at June 30, 2004 and 2003. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$1.2 million, and cash surrender values of approximately \$197,300 and \$177,400 at June 30, 2004 and 2003, respectively.

**Bequests and intentions**

Contributors have informed the Foundation of intentions to give of approximately \$23 million at June 30, 2004 and 2003. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

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NOTES TO FINANCIAL STATEMENTS**

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**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>2004</u>	<u>2003</u>
Academic programs	\$ 34,807	\$ 26,872
Student support	11,150	5,946
University advancement	630	610
Research	7,997	10,037
Faculty support	3,113	2,997
Total	<u>\$ 57,697</u>	<u>\$ 46,462</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>2004</u>	<u>2003</u>
Academic programs	\$ 41,101	\$ 37,101
Student support	76,159	69,127
University advancement	12,136	12,848
Research	1,060	1,217
Faculty support	29,261	29,637
Total	<u>\$ 159,717</u>	<u>\$ 149,930</u>

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**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):

	2004	2003
Time restricted	\$ -	\$
Academic programs	5,763	6,925
Student support	3,360	3,856
University advancement	706	236
Research	5,416	7,710
Faculty support	1,130	1,531
Total	\$ 16,375	\$ 20,258

**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, 2004 and 2003 was approximately \$95,900 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.

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

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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, 2004 and 2003, 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 in FY04 and FY03.

**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 \$87 million and \$78 million of the Foundation's endowment assets and \$7.8 million and \$7.2 million of its pledges receivable **are** designated for the benefit of UMCP as of June 30, 2004 and 2003, **respectively**. For the years ended June 30, 2004 and 2003, respectively, donors requested the transfer of approximately \$1.1 million and \$2.4 million of these endowment assets and \$-0- of these pledges receivable to the UMCPF.

Approximately \$23.3 million and \$23.5 million of the Foundation's endowment assets and \$20,000 and \$312,000 of its pledges receivable are designated for the benefit of UMB as of June 30, 2004 and 2003 respectively. Through June 30, 2004 and 2003 donors requested the transfer of approximately \$3.5 million and \$1.0 million of these endowment assets and \$-0- pledges receivable to UMBF.

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

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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, approximately \$8.3 million of the Foundation's investments are invested with firms of which Board members are partners. The Foundation is a limited partner in a private equity fund with an investment market value of \$1.3 million as of June 30, 2003, the general partner of which includes a Foundation Board member on its Board.

In addition, as of June 30, 2004 and 2003, respectively, approximately \$65 million and \$54.7 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..

**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. This property, included in Assets Held for Sale, has been adjusted to fair market value as of June 30, 2004 and June 30, 2003.

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

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**16. Financial Guarantees under FASB Interpretation No. 45**

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 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.

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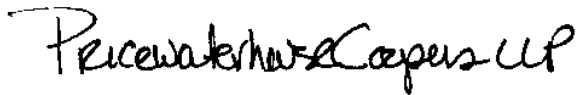
**SUPPLEMENTARY INFORMATION**

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## **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, 2004 and 2003, 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.



September 5, 2003

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**THE UNIVERSITY OF MARYLAND FOUNDATION FUNDS**

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**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, 2004**

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 77,337	\$ 18,674	\$ 10,355
Bad debt	-	328,039	-
Building – construction and repair	559,962	2,654,182	-
Campus sponsored programs	-	2,472	1,945
Conferences	30,745	17,188	6,693
Contract expense	3,343,565	-	-
Delivery	27,924	20,118	66,957
Depreciation	15,240	3,476	10,524
Dues and memberships	1,055	34,441	1,155
Educational programs	2,449,794	-	-
Equipment	515,950	98,264	21,369
Heritage club	-	17,016	-
Insurance	6,015	252,070	5,925
Investment fees	-	5,951,155	-
Legal and professional	160	177,652	2,397
Miscellaneous	707,994	666	-
Office expense	51,147	35,254	4,748
Office rent	320,979	3,815	-
Personnel	1,518,258	1,152,797	384,468
Printing	260,073	173,186	199,560
Property	-	93,923	-
Public relations and promotion	38,701	937,286	75,817
Relocation and recruitment	3,586	141,536	434
Royalties	1,163	-	-
Services	1,357,293	576,365	184,827
Student support	3,336,399	-	-
Telephone	28,500	12,152	1,868
Transfers to The University System of Maryland	9,221,970	14,837	1,287,535
Travel	389,055	58,801	57,392
Total	<u>\$ 24,262,865</u>	<u>\$ 12,775,365</u>	<u>\$ 2,323,969</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, 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>

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**THE AMERICAN JOURNALISM REVIEW**

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**THE UNIVERSITY OF MARYLAND FOUNDATION, INC.**  
**THE AMERICAN JOURNALISM REVIEW**  
**BALANCE SHEET**  
**as of June 30, 2004**

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**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 18,149
Accounts receivable, net of allowance for doubtful accounts of \$-0-	55,500
Contributions Receivable	<u>56,804</u>
Total current assets	<u>130,452</u>
Other assets:	
Office equipment and furniture, net of accumulated depreciation of \$81,619	2,904
Goodwill, net of accumulated amortization of \$59,528	<u>79,854</u>
Total other assets	82,758
Total assets	<u>\$ 213,210</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable	\$ 66,403
Due to The University of Maryland Foundation, Inc.	<u>92,798</u>
Total current liabilities	159,201
Deferred circulation/advertising income	<u>88,294</u>
Total liabilities	<u>247,495</u>
Net assets (deficit):	
Unrestricted	(57,728)
Temporarily restricted	<u>23,443</u>
Total net assets	<u>(34,285)</u>
Total liabilities and net assets	<u>\$ 213,210</u>

**THE UNIVERSITY OF MARYLAND FOUNDATION, INC.**  
**THE AMERICAN JOURNALISM REVIEW**  
**STATEMENT OF ACTIVITIES**  
**for the year ended June 30, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Display advertising	\$ 387,144	\$ -	\$ 387,144
Subscription income earned	78,207	-	78,207
Contributions	433,900	31,000	464,900
Web and newsstand sales	2,395	-	2,395
List rental income	1,988	-	1,988
Royalty income	11,552	-	11,552
Other income	5,166	-	5,166
Transfers from UMF	254,453	-	254,453
Released from restrictions	7,557	7,557	-
Total revenues	<u>1,182,362</u>	<u>23,443</u>	<u>1,205,805</u>
Expenses:			
General and administrative	119,578	-	119,578
Fundraising	35,631	-	35,631
Editorial, programming and production	945,367	-	945,637
Total expenses	<u>1,100,576</u>	<u>-</u>	<u>1,100,576</u>
Change in net assets	81,786)	23,443	(260,779)
Net assets (deficit) at beginning of year	<u>(139,514)</u>	<u>-</u>	<u>(139,514)</u>
Net assets (deficit) at end of year	<u>\$ (57,728)</u>	<u>\$ 23,443</u>	<u>\$ (34,285)</u>

**THE UNIVERSITY OF MARYLAND FOUNDATION, INC.**  
**THE AMERICAN JOURNALISM REVIEW**  
**SCHEDULE OF EDITORIAL, PROGRAMMING AND PRODUCTION EXPENSES**  
**for the year ended June 30, 2004**

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Advertising sales costs	\$ 129,078
Circular and fulfillment costs	179,183
Editorial costs	365,919
Production costs	<u>271,187</u>
 Total editorial, programming and production expenses	 <u>\$ 1,100,576</u>

