

**University System of
Maryland Foundation, Inc.**

**Consolidated Financial Statements and
Supplementary Information
June 30, 2008 and 2007**

University System of Maryland Foundation, Inc.

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June 30, 2008 and 2007

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Report of Independent Auditors

To the Board of Trustees 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 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, 2008 and 2007, and the changes in its 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 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.

PricewaterhouseCoopers LLP

October 29, 2008

University System of Maryland Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 468	\$ 483
Accounts receivable	2,825	1,653
Receivable from investments sales	3,867	129
Accrued interest receivable	813	666
Contributions receivable - current portion	10,096	10,771
Other current assets	890	213
Total current assets	18,959	13,915
Investments		
Endowment	240,626	244,520
Operating	48,389	51,652
Held for other foundations	671,713	598,802
Total investments	960,728	894,974
Other assets		
Contributions receivable - long term portion	13,544	10,778
Contributions receivable from remainder trusts	930	1,093
Angus breeding herd, trademark, logo, records, and data bank	1,180	1,180
Real and personal property	7,698	7,676
Assets held for sale	550	64
Miscellaneous assets	946	1,026
Total other assets	24,848	21,817
Total assets	\$ 1,004,535	\$ 930,706
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,117	\$ 2,758
Payable for investment purchases	2,727	1,264
Deferred income	667	63
Total current liabilities	5,511	4,085
Other liabilities		
Payables under split-interest agreements	5,943	6,159
Due to other foundations and affiliates	672,910	599,905
Total other liabilities	678,853	606,064
Total liabilities	684,364	610,149
Net assets		
Unrestricted	60,692	64,255
Temporarily restricted	62,290	60,466
Permanently restricted	197,189	195,836
Total net assets	320,171	320,557
Total liabilities and net assets	\$ 1,004,535	\$ 930,706

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

University System of Maryland Foundation, Inc.
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2008

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	\$ 2,834	\$ 17,402	\$ 7,944	\$ 28,180
Investment income	1,840	1,757	-	3,597
Other program income	1,024	-	-	1,024
Courses and conferences	875	-	-	875
Sales and services	3,045	-	-	3,045
Change in value of split-interest agreements	50	172	(261)	(39)
Realized and unrealized gains on investments and other, net	(1,111)	5,833	(4,358)	364
Net assets released from restrictions	21,930	(21,930)	-	-
Total revenues	<u>30,487</u>	<u>3,234</u>	<u>3,325</u>	<u>37,046</u>
Expenses				
Program	24,966	-	-	24,966
General and administrative-program support	1,031	-	-	1,031
General and administrative - other	4,045	-	-	4,045
Fundraising	2,965	-	-	2,965
Total expenses	<u>33,007</u>	<u>-</u>	<u>-</u>	<u>33,007</u>
Change in net assets before transfers	(2,520)	3,234	3,325	4,039
Transfers per Board resolution	(1,043)	(1,410)	(1,972)	(4,425)
Change in net assets	(3,563)	1,824	1,353	(386)
Net assets at beginning of year	64,255	60,466	195,836	320,557
Net assets at end of year	<u>\$ 60,692</u>	<u>\$ 62,290</u>	<u>\$ 197,189</u>	<u>\$ 320,171</u>

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

University System of Maryland Foundation, Inc.
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2007

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	\$ 4,956	\$ 13,405	\$ 3,142	\$ 21,503
Investment income	1,916	2,133	-	4,049
Other program income	1,000	-	-	1,000
Courses and conferences	523	-	-	523
Sales and services	3,380	-	-	3,380
Change in value of split-interest agreements	89	(228)	(396)	(535)
Realized and unrealized gains on investments and other, net	9,585	11,257	24,996	45,838
Net assets released from restrictions	20,954	(20,954)	-	-
Total revenues	<u>42,403</u>	<u>5,613</u>	<u>27,742</u>	<u>75,758</u>
Expenses				
Program	25,955	-	-	25,955
General and administrative-program support	1,587	-	-	1,587
General and administrative - other	3,101	-	-	3,101
Fundraising	3,841	-	-	3,841
Total expenses	<u>34,484</u>	<u>-</u>	<u>-</u>	<u>34,484</u>
Change in net assets before transfers	7,919	5,613	27,742	41,274
Transfers per Board resolution	(1,305)	(1,619)	(5,063)	(7,987)
Change in net assets	6,614	3,994	22,679	33,287
Net assets at beginning of year	57,641	56,472	173,157	287,270
Net assets at end of year	<u>\$ 64,255</u>	<u>\$ 60,466</u>	<u>\$ 195,836</u>	<u>\$ 320,557</u>

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

University System of Maryland Foundation, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (386)	\$ 33,287
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities		
Net realized and unrealized gain on investments	(364)	(45,838)
Realized gains on investments for split interest agreements	(67)	(389)
Realized and unrealized gains on managed funds	(10,360)	(93,619)
Realized and unrealized gains on transfers per Board resolution	(9)	(1,517)
Depreciation and amortization	75	60
Bad debt expense	-	153
Increase (decrease) in deferred income	604	(23)
Gift of investments	(187)	(905)
Gift of real and personal property	(22)	(93)
(Increase) decrease in accounts receivable	(1,172)	925
(Increase) decrease in accrued interest receivable	(147)	84
Increase in contributions receivable	(2,091)	(1,450)
Increase in other current assets	(648)	(33)
Decrease in contributions receivable from remainder trusts	163	44
(Decrease) increase in accounts payable and accrued expenses	(641)	271
Increase in due to other foundations and affiliates	73,005	103,079
Contributions restricted for long-term investment	(7,921)	(4,716)
Total adjustments	<u>50,218</u>	<u>(43,967)</u>
Net cash and cash equivalents provided by (used in) operating activities	<u>49,832</u>	<u>(10,680)</u>
Cash flows from investing activities		
Purchases of investments	(478,517)	(632,812)
Sales of investments	423,750	639,093
(Increase) decrease in receivables from investment sales	(3,738)	1,374
(Decrease) increase in payable for investment purchases	1,463	(1,624)
Increase in cash surrender value of life insurance	(8)	(32)
Purchase of equipment and real and personal property	(563)	(353)
Proceeds from sale of assets held for sale	61	233
Net cash and cash equivalents (used in) provided by investing activities	<u>(57,552)</u>	<u>5,879</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	7,921	4,716
Decrease in payables under split-interest agreements	(216)	(65)
Net cash and cash equivalents provided by financing activities	<u>7,705</u>	<u>4,651</u>
Net decrease in cash and cash equivalents	(15)	(150)
Cash and cash equivalents		
Beginning of year	483	633
End of year	<u>\$ 468</u>	<u>\$ 483</u>

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

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

1. Nature of operations

The University System of Maryland Foundation, Inc. (the "Foundation", 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 Footnote 16 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 Footnote 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 inter-company 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 is carried at cost. 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.

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 securities or other reasonable valuation methodologies.

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. Financial instruments such as corporate bonds or other similar instruments are valued at fair value after consideration of market quotations obtained from published sources, independent pricing services and/or other market participants. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the

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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. Total return swap contracts are valued at fair value based upon the quoted market or fair value of the underlying assets.

Investments in limited partnerships are presented at fair value as determined by the general partner under the general oversight of the Board of Trustees of the Foundation. The general partner 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 general partner. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment partnership 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 partner's capital in the investment partnership as reported by the general partner. Accordingly, the value of the investment in the partnership is generally increased by additional contributions and the partnership's share of net earnings from the partnership investments and decreased by distributions from the partnerships and the partner's share of net losses.

The Foundation invests in funds of funds. In these cases the valuation for investment within each fund within the fund of funds is determined as noted above. The fund of funds then obtains its share of the valuation from the underlying partnerships and reports the valuation to each partner based on the partner's net equity.

The value assigned to the investment portfolios where there is no public market value is determined by the investment manager in good faith under the general oversight of the Board of Trustees of the Foundation and does not necessarily represent the amount that may ultimately be realized. Because of the inherent uncertainty of valuation of these investments, the estimates of fair value may differ from quoted or published values or from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The Foundation invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. 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.

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 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 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

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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.

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 Board of Trustees has authorized a formulaic approach to determining the annual spending rate. Under the formula, the annual spending rate may not exceed 5% or be less than 4%. Each year's calculation is determined based on the average market value over the prior twenty quarters of an endowment fund and changes in the Consumer Price Index. Spending rates may not violate any donor restrictions. The spending rates for 2008 and 2007 were 4.45% and 4.58%, respectively.

The Foundation reports realized and unrealized gains net of investment manager fees. The following schedule reflects the gains and fees for the years ending June 30, 2008 and 2007 which does not include \$24.1 million and \$21.6 million fees paid to the investment managers relating to investments held for other foundations for fiscal years ending June 30, 2008 and 2007, respectively. See section Due to Other Foundations and Affiliates below.

<i>(in thousands)</i> 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Realized and unrealized gains on investments and other, gross of fees	\$ 374	\$ 6,461	\$ 3,819	\$ 10,654
Investment fees, not including those relating to managed funds which are included in permanently restricted	<u>1,485</u>	<u>628</u>	<u>8,177</u>	<u>10,290</u>
Realized and unrealized gains on investments and other, net of fees as recorded in the consolidated Statements of Activities	<u>\$ (1,111)</u>	<u>\$ 5,833</u>	<u>\$ (4,358)</u>	<u>\$ 364</u>
<i>(in thousands)</i> 2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007
Realized and unrealized gains on investments and other, gross of fees	\$ 10,713	\$ 11,909	\$ 31,792	\$ 54,414
Investment fees, not including those relating to managed funds which are included in permanently restricted	<u>1,128</u>	<u>652</u>	<u>6,796</u>	<u>8,576</u>
Realized and unrealized gains on investments and other, net of fees as recorded in the consolidated Statements of Activities	<u>\$ 9,585</u>	<u>\$ 11,257</u>	<u>\$ 24,996</u>	<u>\$ 45,838</u>

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

Management's policy for accounting for the Angus breeding herd, trademark, logo, records, and data bank is to combine these asset groups and value them as a single group rather than individually, due to the relationship of each one to the others. These assets are related to the Wye Herd, (a cattle and research facility noted in Footnote 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. Assets held for sale are reported separately and adjusted to market value when appraised.

Expenses

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of a USM or UMMS school, a department activity, or for the Foundation's business operations and have been classified as such.

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 year ended June 30, 2008 and 2007 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 \$1.8 million and \$1.3 million for the years ended June 30, 2008 and 2007, respectively.

The amounts due to other foundations and affiliates at June 30, 2008 and 2007, were as follows (in thousands):

	2008	2007
Coppin State College Development Foundation, Inc.	\$ 8,819	\$ 9,024
Bowie State University Foundation	4,922	5,074
Alumni Association International	4,673	4,796
University of Baltimore Foundation	4,676	4,969
Towson University Foundation	6,759	773
Frostburg State University Foundation	14,808	14,251
UMCP Foundation	237,099	192,870
UMB Foundation	128,925	120,803
University System of Maryland	235,568	245,456
Maryland 4-H Foundation	1,947	1,889
Allegany College of Maryland	7,383	-
Frederick Community College	6,106	-
Howard Community College	4,377	-
Hagerstown Community College	6,848	-
Total	<u>\$ 672,910</u>	<u>\$ 599,905</u>

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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.

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 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. The Foundation recognizes a liability for the portion of the split-interest agreement to be paid to the beneficiary under the terms of the agreement.

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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 in IRS actuarial tables. The discount rate used to compute the present value of these receivables is 3.8%, the discount rate under IRC Section 75206(a) for June 2008.

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 – In the years ended June 30, 2008 and 2007 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, 2008 and 2007, respectively, based on market value of assets managed. 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.

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. The rates utilized in arriving at the values used to discount pledges for future payments were derived from the two year and five year Federal Reserve treasury constant maturity rates at the date of the gift. Contributions that are expected to be received within two to five years are discounted at the two year treasury constant maturity rate. Contributions expected to be received more than five years from the pledge date are discounted at the five year treasury constant maturity rate. Assets held for sale are based on appraisal value.

New Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No 157 is effective for fiscal years beginning after November 15, 2007. The standard does not expand the use of fair value in any new circumstances, but provides clarification on acceptable fair valuation

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methods and applications. At this time management is evaluating the implications of FASB 157 and its impact of the financial statements has not yet been determined.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No 159, "The Fair Value for Financial Assets and Financial Liabilities" (SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 17, 2007. We are currently assessing the impact of SFA 159 on our consolidated financial position and results of operations.

3. Investments

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

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 26,241	\$ 26,241	\$ 33,266	\$ 33,266
Corporate and foreign bonds	35,491	36,160	12,406	12,740
Equities	44,876	39,730	133,996	92,291
United States Treasury notes and bonds	39,041	38,749	7,255	7,371
United States Agencies	-	-	4,675	2,781
Collateralized mortgage obligations/asset and mortgage backed securities	10,335	10,731	21,127	23,403
Absolute return	217,871	170,261	189,884	145,261
Long/short equity hedge funds	372,087	243,550	346,507	223,550
Private capital	82,083	74,542	49,479	44,222
Real estate and energy and natural resources	132,703	109,486	96,379	76,434
Totals	\$ 960,728	\$ 749,450	\$ 894,974	\$ 661,319

Of the fair value note above at June 30, 2008 and 2007, \$854.4 million and \$811.2 million, respectively, is invested in the endowment pool and \$106.3 million and \$83.8 million, respectively, is invested in the operating portfolio.

Included in the equity asset class is a market neutral fund that consists of a core equity portfolio complemented with index call and put options designed to help manage portfolio risk. Absolute return assets consist of 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, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. Long/short strategies take long and short positions in 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. Real estate and energy and natural resources

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investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. The Foundation committed \$464.5 million to private capital, real estate, and energy and natural resource partnerships of which \$234.5 million and \$154.7 million has been called as of June 30, 2008 and 2007, 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, 2008 and 2007, the custodian held approximately \$152.3 million and \$156.3 million, respectively, in trust. Other assets are held by individual fund administrators and within the partnerships.

5. Contributions Receivable

As of June 30, 2008 and 2007, contributors to the Foundation unconditionally promised to give approximately \$25.1 million and \$22.6 million, respectively.

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

	2008	2007
Within one year	\$ 9,809	\$ 10,771
One to five years	14,740	10,794
More than five years	<u>623</u>	<u>1,103</u>
Subtotal	25,172	22,668
Less: present value component	<u>1,532</u>	<u>1,119</u>
Net contributions receivable	<u>\$ 23,640</u>	<u>\$ 21,549</u>

The discount rates used to calculate the present value component:

For the pledge year ended June 30,	1-5 Years	5 Plus Years
2008	2.26%	3.38%
2007	4.94%	4.97%

These rates are based on the yield at year-end of the appropriate United States 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 \$0.9 million and \$1.1 million at June 30, 2008 and 2007, respectively.

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
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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, 2008 and 2007. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$758,000 and \$1.0 million and cash surrender values of approximately \$198,803 and \$202,100 at June 30, 2008 and 2007, respectively.

Bequests and Intentions (Unaudited)

Contributors have informed the Foundation of intentions to give approximately \$19.0 million at June 30, 2008 and 2007. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

7. Restricted Net Asset Activity

Temporarily Restricted Net Assets

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

	2008	2007
Academic programs	\$ 34,444	\$ 32,338
Student support	12,816	14,508
University advancement	873	1,000
Research	10,235	11,010
Faculty support	3,922	1,610
Total	<u>\$ 62,290</u>	<u>\$ 60,466</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):

	2008	2007
Academic programs	\$ 62,624	\$ 68,311
Student support	101,260	94,233
University advancement	338	339
Research	1,812	1,095
Faculty support	31,155	31,858
Total	<u>\$ 197,189</u>	<u>\$ 195,836</u>

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
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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):

	2008	2007
Academic Programs	\$ 7,123	\$ 8,030
Student Support	5,365	4,561
University Advancement	754	816
Research	6,078	4,963
Faculty Support	2,610	2,584
Total	<u>\$ 21,930</u>	<u>\$ 20,954</u>

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. 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, 2008 and 2007 was approximately \$183,019 and \$175,064, respectively.

9. 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.

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, 2007, no provision for income taxes had been made. Estimated payments for FY08 are included in prepaid expenses.

11. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally restricted cash and investments associated with annuity liabilities of approximately \$5.9 million and \$6.2 million as of June 30, 2008 and 2007, respectively.

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

12. 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 Trustee in entities in which the Foundation has also invested, business relationships between the Trustee and entities in which the Foundation has invested, employment of the Trustee by an investment manager or one of its affiliates, and participation by the Trustee 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 \$73.2 million or 7.3% of the Foundation's total assets of \$1 billion and \$73.7 million or 7.9% of the Foundation's total assets of \$931 million at June 30, 2008 and 2007, respectively, are invested in entities that have associations with members of the Foundation's Board of Trustees.

13. 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. However, there is a current lawsuit involving a free lance writer of an article published by AJR. In November 2006, AJR agreed to pay the legal fees associated with the law suit. The Foundation Board of Director's capped the amount at \$200,000 and later revised. To date those fees total approximately \$300,000 which is shown as an expense on the Statement of Financial Position as they are being paid with Foundation funds.

14. Option Arrangement

On November 27, 2002, the Foundation (the "seller") signed an option agreement with AV Williams Property LLC (the "buyer") to sell for \$1.9 million all of the Foundation's right, title and interest in 207 acres known as the "Hall Property". On August 30, 2005, the parties agreed to convert the option agreement to a purchase agreement. According to the contract the buyer has the right to purchase said property at a single settlement or up to a total of 5 settlements. The purchase price is based on the values assigned in the appraisal dated May 21, 2002, but shall be no more or no less than \$1,888,000 as stipulated in the original option. All property was purchased during fiscal year 2008. 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. All options were exercised at June 30, 2008 and only \$61,000 relating to this option was not exercised as of June 30, 2007.

15. 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 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,

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

2008 and 2007. A total of \$1,207,500 has been paid toward the principal. Management has evaluated the fair value of this guarantee and does not believe it has a material effect to the Foundation's financial position.

16. 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, 2008 and 2007, this corporation held \$21.4 million and \$13.8 million in assets and has a net operating gain of \$12.3 million for the year ended June 30, 2008 and a net operating gain of \$1.2 million for the year ended June 30, 2007 both of which are reflected in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Report of Independent Auditors on Supplementary Information

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

The report on our audits of the basic consolidated financial statements of the University System of Maryland Foundation, Inc. as of and for the years ended June 30, 2008 and 2007 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 System of Maryland Foundation Funds schedules of program, general and administrative and fundraising expenses for the years ended June 30, 2008 and 2007, The American Journalism Review statement of financial position as of June 30, 2008 and The American Journalism Review statement of activities for the year then ended 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.

PricewaterhouseCoopers LLP

October 29, 2008

UNIVERSITY SYSTEM OF MARYLAND FOUNDATION FUNDS

University System of Maryland Foundation, Inc.
The University System of Maryland Foundation Funds
Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2008

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 24,069	\$ 3,100	\$ -
Bad debt			
Building - construction and repair	902,763	-	-
Campus sponsored programs	-	9,153	29,327
Conferences and travel	40,200	24,244	4,891
Contract expense	3,903,348	-	10,000
Delivery	12,429	13,188	83,596
Depreciation	1,572	62,142	11,475
Dues and memberships	21,487	12,543	684
Educational programs	2,703,873	-	-
Equipment	509,594	105,034	57,142
Heritage club	-	8,469	-
Insurance	14,410	92,318	8,447
Custodian fees	-	105,232	-
Legal and professional	96,160	172,024	-
Office expense	8,277	23,838	12,234
Office rent	97,801	9,971	8,080
Personnel	1,116,397	2,629,700	423,553
Printing	195,631	124,757	406,633
Taxes	-	54,625	-
Public relations and promotion	623,073	661,751	203,266
Relocation and recruitment	39,301	4,155	862
Services	992,944	584,649	446,167
Student support	4,073,362	-	-
Telephone	10,728	2,773	1,809
Transfers to The University System of Maryland	8,566,252	134,366	1,188,748
Travel	373,413	142,765	47,404
Total	<u>\$ 24,327,084</u>	<u>\$ 4,980,797</u>	<u>\$ 2,944,318</u>

This schedule does not include information relating to AJR

University System of Maryland Foundation, Inc.
The University System of Maryland Foundation Funds
Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2007

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 29,084	\$ 17,340	\$ 2,035
Bad debt	-	153,030	-
Building - construction and repair	2,957,090	22,953	-
Campus sponsored programs	-	-	700
Conferences and travel	34,122	14,457	4,259
Contract expense	3,446,237	-	-
Delivery	24,915	11,233	94,587
Depreciation	1,636	20,424	8,734
Dues and memberships	17,820	16,425	2,558
Educational programs	1,485,956	-	-
Equipment	1,019,344	135,321	74,745
Heritage club	-	10,296	-
Insurance	6,175	98,952	6,602
Custodian fees	-	67,813	-
Legal and professional	215,880	143,453	-
Office expense	32,214	23,348	3,173
Office rent	77,661	675	1,759
Personnel	1,000,653	2,030,656	539,535
Printing	258,619	182,947	451,540
Property	-	47,277	-
Public relations and promotion	454,963	791,287	233,202
Relocation and recruitment	137,965	100,748	3,421
Services	1,151,129	468,292	402,452
Student support	3,779,154	-	-
Telephone	11,836	2,907	1,253
Transfers to The University System of Maryland	8,601,448	133,354	1,907,846
Travel	382,778	74,761	81,193
Total	<u>\$ 25,126,679</u>	<u>\$ 4,567,949</u>	<u>\$ 3,819,594</u>

This schedule does not include information relating to AJR

THE AMERICAN JOURNALISM REVIEW

University System of Maryland Foundation, Inc.
The American Journalism Review
Statement of Financial Position
June 30, 2008

Assets

Current assets

Cash and cash equivalents	\$ 28,894
Accounts receivable	1,582
Prepaid	4,650
Contributions receivable	<u>59,202</u>
Total current assets	<u>94,328</u>

Other assets

Office equipment and furniture, net	1,736
Contributions receivable- long term portion	
Goodwill	<u>65,916</u>
Total other assets	<u>67,652</u>
Total assets	<u>\$ 161,980</u>

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 173,088
Due to University System of Maryland Foundation, Inc.	<u>430,980</u>
Total current liabilities	604,068
Deferred circulation/advertising income	<u>57,911</u>
Total liabilities	<u>661,979</u>

Net assets (deficit)

Unrestricted	(559,201)
Temporarily restricted	<u>59,202</u>
Total deficit	<u>(499,999)</u>
Total liabilities and deficit	<u>\$ 161,980</u>

University System of Maryland Foundation, Inc.
The American Journalism Review
Statement of Activities
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total
Revenues			
Display advertising	\$ 189,397	\$ -	\$ 189,397
Subscription income earned	74,542	-	74,542
Contributions	-	222,288	222,288
Web and newsstand sales	8,769	-	8,769
List rental income	258	-	258
Royalty income	10,187	-	10,187
Other income	4,465	-	4,465
Transfers from USMF	10,872	-	10,872
Released from restrictions	609,836	(609,836)	-
Total revenues	<u>908,326</u>	<u>(387,548)</u>	<u>520,778</u>
Expenses			
Program	639,215	-	639,215
General and administrative	95,233	-	95,233
Fundraising	20,650	-	20,650
Total expenses	<u>755,098</u>	<u>-</u>	<u>755,098</u>
Change in net assets	153,228	(387,548)	(234,320)
Net assets (deficit)			
Beginning of year	<u>(712,429)</u>	<u>446,750</u>	<u>(265,679)</u>
End of year	<u>\$ (559,201)</u>	<u>\$ 59,202</u>	<u>\$ (499,999)</u>