

**University System of  
Maryland Foundation, Inc.**  
Consolidated Financial Statements and  
Supplementary Information  
June 30, 2010 and 2009

# University System of Maryland Foundation, Inc.

## Index

June 30, 2010 and 2009

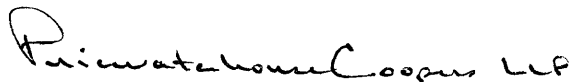
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**Report of Independent Auditors**

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



September 16, 2010

**University System of Maryland Foundation, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2010 and 2009**

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 916	\$ 1,007
Accounts receivable	993	3,653
Receivable from investments sales	1,901	5,264
Accrued interest receivable	517	512
Contributions receivable - current portion	9,849	9,074
Other current assets	278	334
Total current assets	<u>14,454</u>	<u>19,844</u>
Investments		
Endowment	185,301	164,270
Operating	45,929	51,309
Held for other foundations	553,957	494,855
Total investments	<u>785,187</u>	<u>710,434</u>
Other assets		
Contributions receivable - long term portion	6,345	10,416
Contributions receivable from remainder trusts	795	826
Angus breeding herd, trademark, logo, records, and data bank	1,614	1,717
Real and personal property, net	8,665	8,722
Other assets	438	440
Total other assets	<u>17,857</u>	<u>22,121</u>
Total assets	<u>\$ 817,498</u>	<u>\$ 752,399</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,293	\$ 3,120
Payable for investment purchases	192	897
Deferred income	493	710
Total current liabilities	<u>2,978</u>	<u>4,727</u>
Other liabilities		
Payables under split-interest agreements	4,458	4,575
Due to other foundations and affiliates	554,523	495,297
Total other liabilities	<u>558,981</u>	<u>499,872</u>
Total liabilities	<u>561,959</u>	<u>504,599</u>
Net assets		
Unrestricted	52,616	43,259
Temporarily restricted	61,547	60,696
Permanently restricted	141,376	143,845
Total net assets	<u>255,539</u>	<u>247,800</u>
Total liabilities and net assets	<u>\$ 817,498</u>	<u>\$ 752,399</u>

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

**University System of Maryland Foundation, Inc.**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2010**

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

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

**University System of Maryland Foundation, Inc.**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2009**

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

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

**University System of Maryland Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 7,739	\$ (72,371)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities		
Net realized and unrealized (gains)/losses on investments	(22,624)	70,584
Realized gains on investments for split interest agreements	(27)	(9)
Realized and unrealized (gains)/losses on managed funds	(57,208)	158,269
Realized and unrealized gains on transfers per Board resolution	(5)	-
Depreciation and amortization	315	252
Provision for bad debt	395	-
(Decrease)/increase in deferred income	(217)	43
Gift of investments	(432)	(250)
Gift of real and personal property	-	(109)
Decrease/(increase) in accounts receivable	2,660	(828)
(Increase)/decrease in accrued interest receivable	(5)	301
Decrease in contributions receivable	2,901	4,150
Decrease in other current assets	71	567
Decrease in contributions receivable from remainder trusts	31	104
(Increase)/decrease in accounts payable and accrued expenses	(827)	1,003
Increase/(decrease) in due to other foundations and affiliates	59,226	(177,613)
Contributions restricted for long-term investment	(2,860)	(9,744)
Total adjustments	<u>(18,606)</u>	<u>46,720</u>
Net cash and cash equivalents provided by/(used in) operating activities	<u>(10,867)</u>	<u>(25,651)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(684,448)	(967,526)
Sales of investments	690,094	988,689
Increase/(decrease) in receivables from investment sales	3,363	(1,397)
(Decrease) in payable for investment purchases	(705)	(1,830)
(Decrease)/increase in cash surrender value of life insurance	(13)	66
Purchases and sales of equipment and real and personal property, net	(258)	(735)
Proceeds from sale of assets held for sale	-	547
Net cash and cash equivalents (used in)/provided by investing activities	<u>8,033</u>	<u>17,814</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term investment	2,860	9,744
Increase/(decrease) in payables under split-interest agreements	(117)	(1,368)
Net cash and cash equivalents provided by financing activities	<u>2,743</u>	<u>8,376</u>
Net (decrease)/increase in cash and cash equivalents	(91)	539
<b>Cash and cash equivalents</b>		
Beginning of year	<u>1,007</u>	<u>468</u>
End of year	<u>\$ 916</u>	<u>\$ 1,007</u>

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

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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**1. Nature of Operations**

The University System of Maryland Foundation, Inc. (the "Foundation" or "USMF", also known as The University of Maryland Foundation, Inc.), a separately incorporated independent Foundation, manages funds received for the benefit of the Institutions of the University System of Maryland ("USM"). The Foundation also offers the affiliated foundations associated with the Institutions of the USM and the Community Colleges in the State of Maryland the opportunity to invest their assets in the Foundation's endowment pool. The Foundation is organized to receive, hold, invest, manage, use, dispose of, and administer property of all kinds, whether given absolutely or in trust, or by way of agency or otherwise, for the benefit of the USM or for all of the education and support activities that may be conducted by the USM or the University of Maryland Medical System ("UMMS").

The Foundation is comprised of three separately accounted-for divisions: the University System of Maryland Foundation Funds, the American Journalism Review ("AJR"), and the Wye Herd, as well as a fully owned subsidiary for-profit corporation, the USMF Corporation (refer to Note 15 for a discussion on the USMF Corporation).

**2. Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Consolidation and Presentation**

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. As described in Note 1, the Foundation is comprised of three divisions as well as a fully owned subsidiary. The consolidated financial statements include the accounts of these entities. All significant intercompany transactions and accounts are eliminated in consolidation.

**Cash and Cash Equivalents**

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

**Office Equipment and Furniture**

Equipment and furniture is carried at cost and presented within real and personal property on the balance sheet. The Foundation's policy is to charge all additions over \$1,000 to the asset account, but to charge the cost of repairs, maintenance and minor betterments to operations in the year in which the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which are five years. Asset and accumulated depreciation accounts are relieved when equipment is sold or otherwise disposed.

# University System of Maryland Foundation, Inc.

## Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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### Valuation of Investments

The Foundation carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the Board of Trustees of the Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability, (or absence thereof) cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Foundation might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

The change in net unrealized gains or losses on investment securities is reflected in the Statements of Activities and Changes in Net Assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed quarterly among the individual endowment funds on the basis of the number of units of the pool held by each individual endowment account. If the donor document requires that unspent earnings be added back to the corpus, then losses below the cost basis of endowment assets shall first reduce permanently restricted net assets to the extent of accumulated unexpended earnings, then temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the assets have not been met before the loss occurs with any remaining loss reducing unrestricted net assets.

See Note 3 for further details on valuation of investments.

### Realized and Unrealized Gains/Losses

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

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

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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

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

Management's policy for accounting for the Angus breeding herd, trademark, logo, records, and data bank is to combine these asset groups and value them as a single group rather than individually, due to the relationship of each one to the others. These assets are related to the Wye Herd, (a cattle and research facility described in Note 1).

**Contributions of Real and Personal Property**

The Foundation receives various contributions of non-cash items. It is the Foundation's policy to record those assets not intended for sale at fair market value at the date of the gift. These assets are held for investment purposes and are not depreciated.

**Expenses**

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of a USM institution or UMMS, a department activity, or for the Foundation's business operations and have been classified as such. Included in fund raising expenses in the Consolidated Statement of Activities and Changes in Net Assets, approximately \$3 million and \$500,000 for the years ended June 30, 2010 and 2009, were expended on behalf of USM institutions.

**Due to Other Foundations and Affiliates**

Due to other foundations and affiliates consists of funds invested by the Foundation on behalf of other foundations and the annuities and trusts administered for other foundations. These funds are recorded on a per unit basis and managed with funds of the Foundation. The Foundation assesses these other foundations an annual management fee based on the fair value of endowment and operating funds administered (0.3% for endowment funds and 0.25% for operating funds in the years ended June 30, 2010 and 2009 except for USM endowment, which was charged 0.25%. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled \$2.3 million and \$1.7 million for the years ended June 30, 2010 and 2009, respectively.

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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

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

**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.

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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**Classification of Gifts**

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted support. Amounts outstanding are recorded at the net realizable value discounted based on the period of future payment, using a rate of return that a market participant would expect to receive at the date the pledge is received.

**Split-Interest Agreements**

The Foundation also receives contributions in the form of charitable gift annuities and charitable remainder unitrusts, for which the Foundation acts as trustee and holds the assets. When the trust's obligations to all beneficiaries expire, the remaining assets will revert to the Foundation to be used according to the donor's wishes.

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

Amortization of the related discount and revaluation of expected cash flows are recognized as changes in the value of split-interest agreements in the year in which they occur.

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to the beneficiary under the terms of the agreements. The estimated annuity liabilities expected terms are based on IRS actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under IRC Section 75206(a) and ranged from 2.8% to 10.6%.

**Administrative Fees**

Foundation management designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses as follows, depending on the type of investment portfolio into which the asset is placed. The fees assessed by the Foundation are for expenses related to the operation of the Foundation such as management of the endowment, audit, and accounting functions and development as needed to assist USM institutions.

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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*Investments - operating*

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

*Investments - endowment*

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

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allocation of investments by type, the fair value of non-traditional investments, and the net realizable value of the accounts and contributions receivable. Actual results could differ from those estimates.

**Contributions Receivable**

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received.

**Accounts Receivable**

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

**Reclassifications**

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

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

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**3. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value standard discusses valuation techniques such as the market approach, cost approach and income approach and establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category included listed equities and listed bonds.

Level 2 – Pricing inputs including inputs in markets that are not considered to be active for identical investments observable as of the reporting date. Investments which are generally included in this category include less liquid and restricted equity securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in corporate private equity and investment funds as well as off-shore hedge funds in which the Foundation does not have readily available access due to lock up periods and/or partnership agreements. In addition, the Foundation depends on the General Partner or the Investment Manger of the investment for pricing information.

The Foundation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. An investment's level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment on the part of the Foundation. The categorization of an investment with the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

Some of the Foundation's investments may be illiquid and the Foundation may not be able to vary the portfolio in response to changes in economic and other conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if the Foundation is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

**University System of Maryland Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

The following tables present the financial investments carried at fair value as of June 30, 2010 and 2009, by the fair valuation hierarchy defined above (in thousands):

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

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

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- (1) Money market funds and short-term investments include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. The Foundation invests in these assets to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The Foundation has not experienced such losses on these funds.
- (2) For investments in U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered Level 2. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. The Foundation invests in these assets to protect in the event of sudden interest rate changes as well as to maintain liquidity for spending needs and unfunded commitment liability.
- (3) In general, equity securities traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the Nasdaq Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. Equities are classified as Level 1. The Foundation invests in equities to gain exposure to the overall direction of global equity markets.
- (4) Absolute return assets consist of investments that involve the purchase and sale of shares in companies that are subject of publicly announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. Notice period for redemption of investment ranges from one month to six months. There are no outstanding unfunded commitments to this asset category.
- (5) Long / short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles. The investment managers, as noted in the audited financial statements, value the assets held in the fund at all hierarchy levels. However, the Foundation's subscription agreement locks up its investment for a period of time and does not allow for sale to another. Also, early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, the Foundation does not have the ability and, therefore, has classified investments in those vehicles as Level 3. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding commitments to this asset category.
- (6) Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in non-marketable securities of new companies or companies considered to be in the early stages of growth. Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. Investments in private equity investment companies and funds are presented at fair value as approved by the Foundation's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or manager generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by the Foundation's management. In such instances, consideration is also given to the financial condition and operating

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results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the Foundation's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2010 unfunded commitments within the private capital category and the real estate and energy and natural resources category equal approximately \$51 million and \$63 million, respectively.

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

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

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

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

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

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

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

**4. Concentration of Credit Risk**

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

**5. Contributions Receivable**

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

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

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

The discount rates used to calculate the present value component:

<b>For the pledge year ended June 30,</b>	<b>1-5 Years</b>	<b>5 Plus Years</b>
2010	3.25%	3.25%
2009	5.75%	6.75%

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

**6. Conditional Promises to Give and Intentions**

To the extent the following items are conditional promises to give, they are not recorded in the Foundation's financial statements.

**Life Insurance Policies**

The Foundation has been named as the beneficiary of various life insurance policies. These policies had face amounts of approximately \$2.0 million at June 30, 2010 and 2009. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$768,000 and \$758,000 and cash surrender values of approximately \$228,000 and \$213,000 at June 30, 2010 and 2009, respectively.

**Bequests and Intentions (Unaudited)**

Contributors have informed the Foundation of intentions to give approximately \$15.8 million at June 30, 2010 and 2009, respectively. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

**7. Endowments**

The Foundation's endowment consists of approximately 1,400 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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The Board of Trustees has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As of a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with MUPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the Institution and the endowment fund
- (3) The general economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Institution
- (7) The investment policies of the Foundation

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

<b>2010</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-Restricted Endowment Funds	\$ 10,785	\$ 9,349	\$ 141,376	\$ 161,510
Board-Designated Endowment Funds	4,464	2,071	-	6,535
<b>Total Funds</b>	<b>\$ 15,249</b>	<b>\$ 11,420</b>	<b>\$ 141,376</b>	<b>\$ 168,045</b>

<b>2009</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-Restricted Endowment Funds	\$ 10,386	\$ 7,633	\$ 143,845	\$ 161,864
Board-Designated Endowment Funds	4,731	3,375	-	8,106
<b>Total Funds</b>	<b>\$ 15,117</b>	<b>\$ 11,008</b>	<b>\$ 143,845</b>	<b>\$ 169,970</b>

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

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of the year</b>	\$ 15,117	\$ 11,008	\$ 143,845	\$ 169,970
Investment return				
Investment Income	338	153	(286)	205
Net Appreciation (Depreciation) (realized and unrealized)	<u>1,876</u>	<u>1,168</u>	<u>(3,564)</u>	<u>(520)</u>
Total investment return	2,214	1,321	(3,850)	(315)
Contributions	18	887	2,009	2,914
Appropriation of endowment assets for expenditure	(881)	(1,001)	-	(1,882)
Transfers to create Board designated endowment funds	<u>(1,219)</u>	<u>(795)</u>	<u>(628)</u>	<u>(2,642)</u>
<b>Endowment net assets, end of year</b>	<u>\$ 15,249</u>	<u>\$ 11,420</u>	<u>\$ 141,376</u>	<u>\$ 168,045</u>
2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of the year</b>	\$ 19,932	\$ 16,796	\$ 197,189	\$ 233,917
Investment return				
Investment Income	419	165	462	1,046
Net Depreciation (realized and unrealized)	<u>(5,497)</u>	<u>(5,751)</u>	<u>(59,634)</u>	<u>(70,882)</u>
Total investment return	(5,078)	(5,586)	(59,172)	(69,836)
Contributions	457	434	8,357	9,248
Appropriation of endowment assets for expenditure	(194)	(619)	(1,869)	(2,682)
Transfers to create Board designated endowment funds	<u>-</u>	<u>(17)</u>	<u>(660)</u>	<u>(677)</u>
<b>Endowment net assets, end of year</b>	<u>\$ 15,117</u>	<u>\$ 11,008</u>	<u>\$ 143,845</u>	<u>\$ 169,970</u>

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**Permanently Restricted Net Assets - Endowment Funds**

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

	<b>2010</b>	<b>2009</b>
Academic programs	\$ 37,695	\$ 32,243
Student support	71,584	76,927
University advancement	385	402
Research	2,052	2,151
Faculty support	29,660	32,122
Total	<u>\$ 141,376</u>	<u>\$ 143,845</u>

**Temporarily Restricted Net Assets - Endowment Funds**

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

	<b>2010</b>	<b>2009</b>
Academic programs	\$ 1,843	\$ 1,124
Student support	8,107	7,778
Research	261	931
Faculty support	1,209	1,175
Total	<u>\$ 11,420</u>	<u>\$ 11,008</u>

**Endowment Fund with Deficits**

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

**Return Objectives and Risk Parameters**

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

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**Strategies Employed for Achieving Objectives**

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

<b><u>Categories</u></b>	<b><u>Ranges</u></b>
Global equities	35% - 55%
Multi strategy & opportunistic strategies	20% - 35%
Real assets	20% - 30%
Cash & bonds	5% - 15%

The Endowment Portfolio is constructed based on the following principles:

- (1) **Allocation**: A high allocation to equities and equity-related investments is required to support spending while preserving the purchasing power of the endowment. The Investment Committee understands that a high commitment to equities may result in periods of diminished purchasing power and higher short-term volatility. All hedged equities will be considered equities. The Real Assets portfolio is designed to maintain value in the endowment in periods of prolonged inflation. The primary purpose of the fixed income portfolio is to help maintain spending distributions from the endowment during a period of prolonged economic contraction, without having to sell equities or other assets at depressed prices to do so.
- (2) **Diversification**: By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The Investment, however, may make an exception in special circumstances.
- (3) **Rebalancing**: In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations ranges.

**Spending Policy and Relationship of Spending Policy to Investment Objectives**

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. If the agreement with the donor so provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Some agreements provide that the corpus can be invaded to provide for spending stability.

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The Foundation's policy of appropriating as of July 1 of the fiscal year was based on the following:

The Board of Trustees has authorized a formulaic approach to determine the annual spending rate. The spending rate is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be no more than 5% or less than 4% of the moving average market value. Spending rates may not violate any donor restrictions.

- a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.
- b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI).

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

Newly created individual endowment funds, in order to have annual Spendable Income, must be invested for at least one year prior to the calculation date and have a minimum value.

In establishing this policy, the Spending Policy Committee considered the long-term expected return on the Endowment and its goal of preserving principle. Accordingly, over the long term, USMF expects the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

The Board approved a blanket carry-over for all unspent appropriated funds as of June 30 for all years. In the event that there is no spending for two consecutive years, a special request must be made to continue carry-over of unspent appropriated funds into subsequent fiscal years.

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**8. Restricted Net Asset Activity**

**Temporarily Restricted Net Assets**

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

	<b>2010</b>	<b>2009</b>
Academic programs	\$ 28,660	\$ 28,431
Student support	19,112	18,519
University advancement	1,715	1,896
Research	9,711	10,089
Faculty support	2,349	1,761
Total	<u>\$ 61,547</u>	<u>\$ 60,696</u>

**Net Assets Released from Restrictions**

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Expenditures on permanent restricted funds are released out of the appreciation related to those funds to the extent allowed by the donors. Such net assets were released as follows during the years ended June 30 (in thousands):

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

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

**9. Pension Plan**

The Foundation maintains a defined contribution plan for certain personnel provided by the Teachers Insurance and Annuity Association ("TIAA") and the College Retirement Equities Fund ("CREF"). The Foundation contributes 7.25% of the employee's compensation to the plan. Effective July 1, 2005 the Foundation revised its pension plan so that employees are fully and immediately vested. In addition, eligible employees are entitled to make voluntary contributions to the plan. The Foundation established a 457(b) plan for top executives in 2002. Total pension expense for the years ended June 30, 2010 and 2009 was approximately \$213,000 and \$234,000, respectively.

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**10. Contributed Services and Office Space**

A number of unpaid volunteers contribute their time to the Foundation. In addition, the Foundation's offices are located in the USM Administration building under a quid pro quo arrangement. The Foundation's President is also the USM Vice Chancellor for Advancement and USM provides space and computer equipment in exchange. The value of these services has not been included in the financial statements as these services do not meet the reporting criteria set forth in accounting principles generally accepted in the United States of America.

**11. Income Taxes**

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c) (3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the years ended June 30, 2010 and 2009, therefore, no provision for income taxes had been made. The Foundation paid approximately \$25,000 in taxes attributable to fiscal year 2009.

The FASB issued guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions, effective for financial statements for fiscal years beginning after December 15, 2008. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Effective July 1, 2009, USMF adopted this guidance, and there was no impact on the financial statements upon adoption. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2006.

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

**12. Charitable Gift Annuity Requirements**

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

**13. Related Party Transactions**

Various members of the Board of Trustees of the Foundation are associated with organizations which manage a portion of the Foundation's assets, or in which the Foundation has invested. These associations include investment by the Trustees in entities in which the Foundation has also invested, business relationships between the Trustees and entities in which the Foundation has invested, employment of the Trustees by an investment manager or one of its affiliates, and participation by the Trustees on the Board of Directors of an investment manager.

Members of the Board of Trustees do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those Trustees are associated. Approximately \$47.1 million or 5.8% and \$23.9 million or 3.2% of the Foundation's total assets of \$817 million and

**University System of Maryland Foundation, Inc.**  
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\$752 million at June 30, 2010 and 2009, respectively, are invested in entities that have associations with members of the Foundation's Board of Trustees.

**14. Financial Guarantee**

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

**15. USMF Corporation**

In November 2004, the Foundation established the USMF Corporation, a for-profit subsidiary, for the purpose of holding investment assets that potentially generate unrelated business income subject to federal and state income tax. At June 30, 2010 and 2009, this corporation held \$12.9 million and \$14.1 million in assets and has net operating losses of \$4.5 million and \$7.2 million for the years ended June 30, 2010 and 2009, respectively, which are reflected in the consolidated financial statements.

**16. Subsequent Events**

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

## **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, 2010 and 2009 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, 2010 and 2009 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 consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

September 16, 2010

**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, 2010**

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	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 31,117	\$ 14,852	\$ 1,300
Bad debt	-	395,000	-
Building - construction and repair	4,100,072	2,183	-
Campus sponsored programs	-	2,865	8,239
Conferences	31,431	10,925	6,883
Contract expense	2,974,145	-	-
Custodian fees	-	115,888	-
Delivery	12,826	73,960	66,409
Depreciation	923	277,740	11,475
Dues and memberships	45,154	23,537	2,494
Educational programs	1,003,191	-	-
Equipment	252,086	121,054	64,402
Heritage club	-	9,677	-
Insurance	18,262	79,161	7,363
Legal and professional	360	216,664	-
Miscellaneous	379,948	-	-
Office expense	7,065	22,934	3,031
Office rent	38,381	90,581	854
Personnel	1,133,850	2,885,156	509,806
Printing	112,082	115,763	227,909
Public relations and promotion	383,946	456,753	207,866
Relocation and recruitment	15,848	2,159	49
Services	357,982	384,883	386,127
Student support	5,428,841	-	-
Taxes	-	(12,409)	-
Telephone	10,042	6,660	553
Transfers to The University System of Maryland	7,272,335	53,774	3,073,970
Travel	391,410	73,689	45,306
Total	<u>\$ 24,001,297</u>	<u>\$ 5,423,449</u>	<u>\$ 4,624,036</u>

This schedule does not include information relating to American Journalism Review.

**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, 2009**

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 6,216	\$ 7,331	\$ 1,427
Building - construction and repair	2,388,699	309,122	-
Campus sponsored programs	-	7,250	5,117
Conferences and travel	38,187	11,024	7,719
Contract expense	4,491,631	-	-
Custodian fees	-	70,595	-
Delivery	10,819	50,797	54,696
Depreciation	1,106	170,361	11,475
Dues and memberships	60,722	20,699	1,040
Educational programs	972,282	-	-
Equipment	251,575	119,934	70,812
Heritage club	-	8,036	-
Insurance	15,751	86,661	9,177
Legal and professional	86,103	207,221	-
Miscellaneous	548,620	19,900	-
Office expense	15,745	31,994	8,676
Office rent	84,726	101,571	2,380
Personnel	1,615,136	2,462,098	502,646
Printing	136,617	64,421	281,698
Public relations and promotion	467,932	627,320	330,441
Relocation and recruitment	118,032	1,663	-
Services	716,135	574,364	346,680
Student support	4,988,464	-	-
Taxes	8,030	133,654	-
Telephone	22,967	7,768	3,393
Transfers to The University System of Maryland	10,819,380	124,326	501,242
Travel	301,226	55,908	28,752
Total	<u>\$ 28,166,101</u>	<u>\$ 5,274,018</u>	<u>\$ 2,167,371</u>

This schedule does not include information relating to American Journalism Review.