

ANNUAL
2009
REPORT

USM FOUNDATION

SERVING THE UNIVERSITY SYSTEM OF MARYLAND



Our
30th
Year



CONTENTS

LETTER FROM THE PRESIDENT AND CHAIRMAN | **1**

FROM THE CHANCELLOR | **2**

REFLECTING ON THIRTY YEARS | **3**

INVESTMENT REPORT | **11**

FINANCIAL HIGHLIGHTS | **18**

FINANCIAL STATEMENTS | **20**

LEADERSHIP | **35**

Letter from the President and Chairman

The fiscal year ending June 30, 2009 marked one of the most demanding and rewarding periods in the University System of Maryland (USM) Foundation's 30-year history. Against a historically challenging economic backdrop, the USM Foundation maintained a sharp focus on its mission, becoming ever more responsive to our clients, supporting institutional fundraising programs, assisting students through scholarship funds, strengthening research efforts, and advocating on behalf of the 13 institutions and two regional education centers that comprise the University System of Maryland.

We expanded our reach into Maryland's higher education landscape as well, responding to community college requests to provide investment management services, and now serving six community college foundations. Our Board of Directors, committee members, USM and community college partners, professional staff, volunteers, and donors came together in a true partnership to advance our common goals.

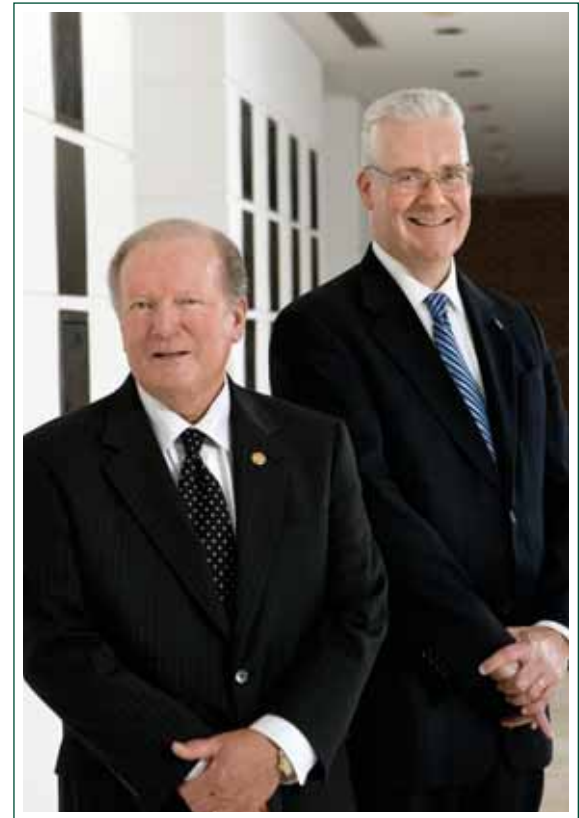
There is broad agreement across the financial sector that FY 2009 was the most inhospitable investment climate in generations. The mortgage crisis that began in 2007 led directly to a global credit crunch last year, which took a severe toll on equity markets worldwide. The USM Foundation's performance reflected the decline of the market, with the Endowment Fund losing 24.4%.

It is important to note, however, that taking the last five years into account, the USM Foundation has outperformed key benchmark averages, ranking in the top quartile of the Wilshire Trust Universe Comparison Service (large institutional investors). As of June 30, 2009, the five-year annualized performance for the Endowment Fund was 3.5% versus -2.2% for the S&P 500. This underscores the professionalism and hard work of our investment committee and staff and affirms the long-term approach they have embraced. In fact, earlier this year, USM Foundation Chief Investment Officer Michael Barry was named one of the "2009 Rising Stars of Foundations & Endowments" by *Institutional Investor News*, a proud reflection of his talent.

FY 2009 was a positive year for the System's federated fundraising campaign. After four years – just over the half-way point – USM institutions have raised more than \$1.25 billion as of June 30, 2009, or 73% of the System's \$1.7 billion goal. This is especially impressive given the broad reach of the past year's economic turmoil.

Following through on key elements of the USM Foundation's new strategic plan, last year also saw significant efforts to advance advocacy, outreach, and support as we partner with USM institutions. Through professional development programs, educational events, networking opportunities, and social occasions, the USM Foundation worked diligently to meet the needs of the clients we serve.

Despite its challenges, 2009 was an important year of celebration for the USM Foundation as it marked our thirtieth anniversary. This 2009 Annual Report will take the opportunity to look back over a remarkable 30 years, review in depth our financial performance for this past year, and look forward to additional decades of growth, success, and positive impact.



Board Chairman, Walter R. Fatzinger, Jr. (left) with Leonard R. Raley, President and CEO.

Walter R. Fatzinger, Jr.
Board Chairman

Leonard R. Raley
President and CEO



WE Kirwan

William E. Kirwan
Chancellor

From the Chancellor

At the close of fiscal year 2009, the University System of Maryland (USM) served more students than at any time in our history, graduated more students than ever before, generated an all-time high in extramural research and development funding of more than \$1.1 billion, and attracted major philanthropic gifts that will transform lives and broaden knowledge across the region and the world. As a result, we are—in many ways—in a much stronger position today than we have perhaps ever been.

This success is all the more impressive against the economic landscape in which we have been operating and is attributable to numerous proactive efforts across the USM. Chief among these has been the dedication and hard work of the USM Foundation, which has become ever more important to the success of the University System. The Foundation's dedication to advancing scholarship and understanding becomes more impressive each year. Its emphasis on advocacy continues to make a real and meaningful difference with both public and private sector leaders. And its partnership with our institutions, both to support and enhance fundraising efforts and celebrate fundraising successes, has created a true culture of philanthropy.

This past year, even as the USM Foundation was forced to navigate the worst economic conditions in recent memory, it nevertheless was able to enhance the System's fundraising potential, raise the USM's profile, and increase its ability to serve our institutions' missions and ambitions. These achievements are a tribute to the tremendous professionalism and dedication embodied in the Foundation at every level.

Finally, I am pleased to offer my congratulations to the USM Foundation as it celebrates its thirtieth anniversary. As you know, just last year the USM commemorated its twentieth year as a system. I know first-hand the value of these landmarks, both to reflect back with pride over past accomplishments, and—more important—to look to the future with renewed zeal, knowing the best is yet to come.

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

Reflecting on Thirty Years



THREE DECADES AGO,

with the donation of 400 Black Angus cattle from the internationally famous Wye Plantation Herd, Arthur A. Houghton Jr., former president of Steuben Glass and great-grandson of Corning Glass Works founder Amory Houghton, became the first benefactor of the University System of Maryland Foundation (USMF).

Then named the University of Maryland Foundation, this private, nonprofit foundation was created to accept and hold Mr. Houghton's gift for use by the University, and remains the legal owner of the herd today.

As we reflect on an eventful year, this thirtieth anniversary provides an opportunity to look back at the USMF's evolution, consider the perspective and accomplishments of its leaders, and envision a future of progress and possibilities.

SERVICE. SUPPORT. GROWTH.

1979 - 1989: BUILDING AND CONSOLIDATION

Under the initial leadership of Robert Smith, the University of Maryland Foundation was created to serve the University of Maryland and its five campuses (College Park, Baltimore County, Baltimore, Eastern Shore, and University College). Along with creating a mechanism through which to accept the Angus Herd, the establishment of the Foundation provided two key benefits: The flexibility to manage assets, whether



given absolutely or in trust; and the assurance that gifts supplement—not replace—state support.

The early years of the Foundation also saw the initiation of the first-ever coordinated fundraising campaign, the *Business and Industry Campaign*, with the mutually supporting goals of raising \$5.75 million, strengthening ties with the business community, advancing the University of Maryland in the ranks of research universities, and aiding economic development in the Baltimore-Washington corridor.

On January 1, 1982, Patricia Purcell was appointed as the first official president of the University of Maryland Foundation, with Robert Smith maintaining his position as Foundation Secretary. As the Foundation's first president, Pat managed the Foundation's activities and provided leadership for the University of Maryland's overall fundraising effort.

With the Foundation being both quite new—in existence for just three years—and quite small—total assets less than \$12 million—Pat had her work cut out for her. Employing fewer than two dozen

professional development staff across all of the University of Maryland's campuses, she was building almost from the ground up.

Working with Foundation Board Chair Robert Tardio, who took that post essentially agreeing to chair a board that didn't exist, Pat was able to expand the number of high-profile individuals serving on the Foundation Board. Internally, she added a business manager to the Foundation staff. Pat also oversaw the progress of the *Business and Industry Campaign*, which ultimately raised almost \$17 million from the corporate community, far outpacing its \$5.75 million goal. That campaign resulted in the first-ever chair endowed through the Foundation, the A. James Clark Chair in Construction Engineering and Management.

In 1983, with Pat Purcell transitioning to the position of Executive Director of Institutional Advancement at the University of Maryland, Baltimore campus, Robert Smith became Foundation President. For the remainder of the Foundation's first decade, Bob continued to oversee significant progress. The number of donors, the level of giving, and assets under management all soared.



**Robert G. Smith
(1979 - 1989)**

While Bob had served as the *de facto* leader of the newly-formed University of Maryland Foundation for its first three years, serving simultaneously as Vice President of University Development and Foundation Secretary, it wasn't until 1983 that he formally took the reins as Foundation President. Bob initiated the Foundation's first fundraising campaign, built an engaged and high-profile board, and began the work of establishing development operations on the College Park and Baltimore campuses.

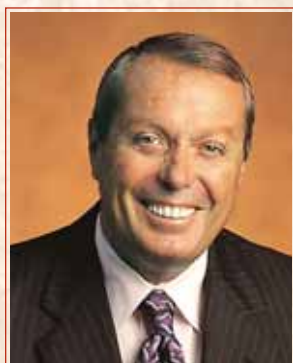


**Patricia P. Purcell
(1982 - 1983)**

As the University of Maryland Foundation's first official president, Pat recognized that unlike universities in some parts of the country, heavy reliance on state support left Maryland's public universities with no real history of significant private fundraising efforts. While growing the still nascent Foundation, she worked to instill an entrepreneurial spirit so that the Foundation could flourish. Pat worked with every campus to instill that attitude, bringing a new sense of urgency that had not existed prior to the Foundation's existence.

Bob also ushered in *The Minds of Maryland*, the Foundation's second campaign, and brought John Martin on board as its Executive Director. This five-year campaign was launched with a goal of \$200 million, more than 10 times the total raised in the Foundation's first campaign just a few years earlier. With 10 leadership gifts ranging from \$1 million to \$2.5 million, the campaign launched with a great deal of forward momentum.

In 1989, Robert Smith announced his intention to step down as Foundation president, with John Martin assuming that position effective January 1, 1990.



**John K. Martin
(1987 - 2003)**

Joining the University of Maryland Foundation in 1987 to direct the Foundation's five-year, \$200 million capital campaign, John was named president in 1990, a position he held for 13 years. With the creation of the new University of Maryland System, John saw the need to both significantly professionalize the operations of the Foundation and build closer relationships with the campuses to facilitate campus-based development capacity.

1990 - 1999: GROWTH AND INNOVATION

Before John assumed the position of Foundation president, a significant change took place: The five-campus University of Maryland merged with the six members of the State University and College System of Maryland, creating the University of Maryland System. This transformation from an organization consisting of five campuses to a system of 11 unique and independent institutions required a new focus.

As president, John coordinated the \$200 million capital campaign as both a fundraising effort and as an opportunity to build relationships with the campuses, assisting institution presidents at many campuses to create and organize professional development offices. By its conclusion in 1993, the campaign achieved both goals, raising \$260 million and building campus-based development capacity.

John's early years were also marked by a significant push to professionalize the University of Maryland Foundation. The Board of Directors grew, Foundation staff increased, and asset management expertise was established as a premium.

The early 1990s were also a time of serious economic turmoil, with the still newly-formed University of Maryland System suffering significant cuts in state support. In fact, after the budget cuts in 1993, System funding stood at 33% below its funding level upon formation in 1988. With private giving becoming more important for the System's health, the fundraising efforts at the campus level and within the Foundation were very successful. The year 1993 saw the Foundation's assets under management approaching \$100 million, placing USMF in the upper ranks of public institution foundations in America.



Institutions Served by the USM Foundation



By the mid- to late-1990s, the economy had rebounded and the Foundation was enjoying tremendous success, with the return on investment of the endowment funds reaching as high as 37.5% in 1997. That year also saw the launch of the Foundation's most ambitious capital campaign yet – *Make a Lasting Impression*, with a five-year goal of \$700 million. Thanks to tremendous progress on the combined campaign and outstanding portfolio management, the Foundation's asset total had increased to \$458 million, a growth of almost 600% by the end of the decade.

Make a Lasting Impression



2000 - 2009: TRANSITION TO SERVICE

By 2000, the System's two largest campuses – the University of Maryland, College Park and the University of Maryland, Baltimore – established their own foundations. The Foundation took on a more supportive Systemwide role that augmented fundraising efforts and emphasized its expertise in technical support, donor research, publications, and other consolidated back-office functions. In addition, investment management took on a greater importance.

Events early in the decade also shaped the Foundation's role. While the capital campaign had exceeded \$900 million raised, the rapidly deteriorating economic conditions of the early 2000s were affecting the stock market. After the events of September 11, 2001, the economy

and market struggles worsened. In 2002, with endowed funds suffering, the Foundation stepped forward with grants totaling \$1.2 million to USM institutions to "backfill" endowment incomes in support of scholarships and academic programs. In addition, the Foundation waived management fees on newer endowments with market values less than book value. The Foundation also initiated a change in the Investment Committee to simultaneously reexamine asset allocation and to represent member institutions proportionately.

These steps exemplified the Foundation's transition to service. With John Martin leaving for the University of Connecticut Foundation, in 2003 the USMF Board turned to John Dillon to serve on an



**John W. Dillon
(2003-2004)**

A long-time Verizon executive with many years of service on the USM Foundation Board, John's tenure as interim president marked an increased focus on customer service and greater communication and cooperation between the Foundation and its USM clients.

interim basis as a formal search for a new president began. During his year as interim president, John initiated major changes on both the financial side of the Foundation's activities as well as the administrative services side.

Key among John's accomplishments was a reorganization of the Investment Committee into a smaller and more hands-on group, with subcommittees focused on key issues and a revised asset allocation policy. In addition, through a limited contract with Cambridge and Associates, a greater level of data supplemented the work of the Investment Committee. The high level of expertise on the Committee and the enhanced data collection combined to make USMF better informed in making investment decisions.

John also brought a more corporate sensibility to the Foundation's service and administrative functions. He stressed more communication between the Foundation and its client institutions. He emphasized more face-to-face meetings—both collective and individual—to update institutions on the Foundation's activities and policies and to share concerns.

These stronger relationships laid the groundwork for the Foundation's emerging role as a support- and client-centered organization.

With Susan Schwab becoming Foundation president in 2004, she called upon experience and expertise gained in both the academic and corporate worlds, seeking to cement the changes her predecessors had initiated, while accelerating the professionalism and sophistication of the USMF's activities. Building upon the idea that partnership—not competition—was the overarching dynamic, Susan positioned the USMF to play more of a coordinating role, and the healthy overlap of the Foundation Board with the individual campus boards reinforced this spirit of cooperation.

Key among her efforts was to develop a mutually reinforcing partnership with the member institutions. Susan worked with campus leadership to reach five-year agreements that were consistent with the fiduciary responsibilities of the Foundation while addressing the concerns and needs of the clients, especially the University of Maryland, College Park and the University of Maryland, Baltimore.

Another critical accomplishment was bringing the USM Common Trust under the investment management of the USMF, demonstrating the Board of Regents' faith in the leadership and stewardship of the Foundation. This \$200 million in additional funds represented a significant increase in Foundation assets under management, giving the Foundation greater flexibility in implementing investment strategies.

With an offer from the Bush Administration to assume the position of United States Trade Representative, Susan left the Foundation presidency in 2005. Leonard Raley then began his tenure as Foundation president, seeking to complete the transition to a true service model for USMF.

Leonard's experience gave him first-hand knowledge of the day-to-day operation of campuses and campus development offices. His emphasis on putting the institutions first—positioning the USMF as a partner to enable, assist and support them in their success—was underscored during his first days on the job. Leonard and Foundation Board Chairman Walter Fatzinger met with



**Susan C. Schwab
(2004-2005)**

With extensive government, corporate and academic experience, Susan brought a focus on partnerships and communication. Working collaboratively with member institutions, Susan strengthened the commitment to customer service, accelerated the professionalism and sophistication of the USM Foundation's operations, renegotiated the five-year agreements with campus clients, introduced a tiered fee structure, and increased assets under management through the addition of the Common Trust to the Foundation's investment management pool.



**Leonard R. Raley
(2005 - Present)**

After 25 years in leadership positions at Towson University, the University of Maryland, College Park, and Ohio University, Leonard joined the Foundation to lead its transition to a truly Systemwide resource, stressing growth in assets under management, professionalization of Foundation staff, development of economies of scale, and advocacy on behalf of the University System of Maryland.

every USM institution president, and with advancement leadership and staff at each campus.

By listening, meeting face-to-face, and learning the aspirations of each campus, Leonard was better prepared to deploy the USMF in ways that helped affiliated foundations with effective governance, delivered high quality service to clients, and advanced transparency in Foundation activities.

In addition, in recognition of the need for strategic direction in USMF operations, he launched a comprehensive, year-long strategic planning process to ensure that the necessary time, attention, and resources were being provided to all clients. Individuals from every USM institution participated in this process,

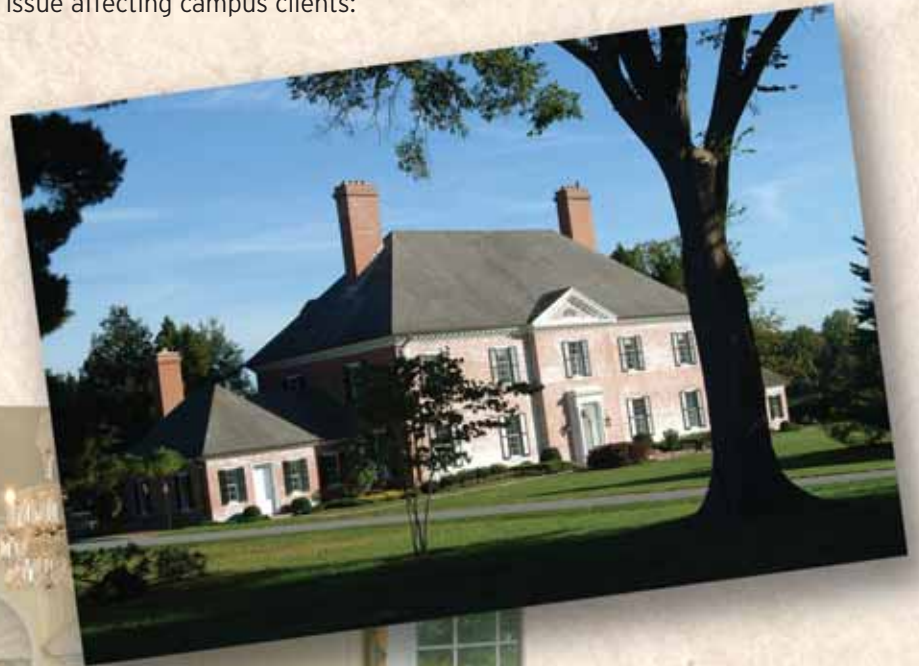
with Leonard meeting with every president individually to gauge their impression of the Foundation.

One significant outgrowth of this process was the decision to have every institution represented on the Foundation Board. The resulting Foundation Board is genuinely representative of the USM as a whole.

Leonard's approach has been to define the USMF as a team of experts, helping with every issue affecting campus clients:

building their volunteer structures; assisting with the development of by-laws, policies, and procedures; highlighting "best practices;" and providing web-based access to account information, business operation forms, financial forms, and other compliance-related matters.

In recent years, the USMF has also ramped-up its emphasis on strategic support, assisting with planned giving efforts, processing complex transactions,



The Chancellor's residence, Hidden Waters, was given to the USMF by the France-Merrick Foundation in 1981.

offering 10 professional development opportunities each year, hosting more than 40 events annually at Hidden Waters, and consulting with assessments, audits, and campaign readiness studies. USMF has expanded its footprint in offering donor database management services, adding additional campus clients and offering consolidated and cost-effective wealth screening and research services.

This relationship between the USMF and the individual institutions has yielded benefits for all. Assets under management have grown significantly, volunteers are more engaged, campaign fundraising has advanced, economies of scale have been realized, and some of the best fund managers in the business are working for the benefit of every member institution.

2010 AND BEYOND: LOOKING TOWARD THE FUTURE

Looking forward, the Foundation faces both challenges and opportunities. The struggling economy continues to affect both private giving and investments, and the competition for charitable dollars is at an all-time high. With meaningful stewardship of donors, a commitment to communication and openness, and innovative use of technology, USMF can put itself at the forefront of demonstrating to clients the immediate impact of their charitable investments, allowing them to actually track the return on their charitable investment in the areas of scholarships, professorships, or renovation.

USMF will maintain the pioneering approach of its origins, constantly adjusting and enhancing the menu of services offered to member institutions. In addition, the Foundation plays a vital role in raising the profile of the entire University System of Maryland, both through the power of total assets under management, and through a continued emphasis on advocacy as a strong and diverse voice for higher education.



USM Foundation Board members at their November 2009 meeting.

USM Foundation Board Meeting, November 2009



Investment Report

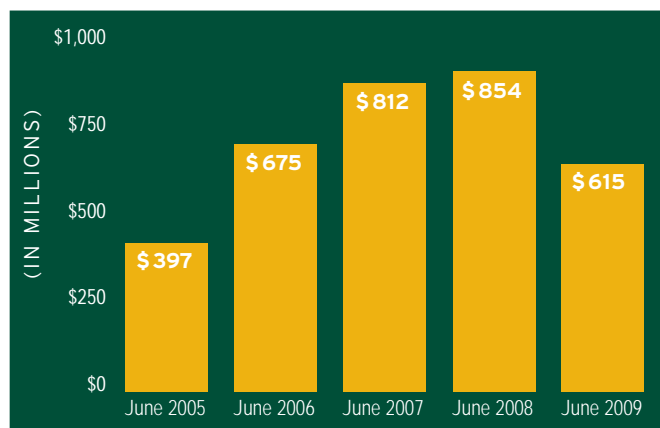
Purpose of the Endowment

Since 1978, the Foundation has managed and administered funds for the benefit of institutions and foundations affiliated with the University System of Maryland. Our investment objective is to generate returns so that distributions can be made, to preserve capital as adjusted for inflation, and to perform in the top 25% of institutional investors as defined by the Wilshire Trust Universe Comparison Service (TUCS) data set, a benchmark that includes a broad array of institutional investors. The endowment pool is comprised of just over 3,400 individual endowment accounts of 20 institutions. Distributions to these institutions support students, faculty, research, facilities, and special initiatives.

Fund Management

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

USM FOUNDATION ENDOWMENT POOL



Note:
On July 1, 2005, the USMF Endowment Pool merged in the assets of the USM Common Trust.

ENDOWMENT: ASSETS UNDER MANAGEMENT

As of June 30, 2009

USMF Funds:	(in thousands)
University of Maryland, College Park	78,538
University of Maryland, Baltimore County	42,264
University of Maryland, Baltimore	14,771
University of Maryland Eastern Shore	13,385
University of Maryland University College	9,949
University System of Maryland Foundation	9,485
University of Maryland Center for Environmental Science	330
University of Maryland Biotechnology Institute	67
Sub-Total	\$ 168,789
Affiliated Organizations:	(in thousands)
The University System of Maryland Common Trust	163,698
The University of Maryland, College Park Foundation	142,972
The University of Maryland, Baltimore Foundation	64,543
Frostburg State University Foundation	11,126
Coppin State University Development Foundation	6,346
Allegany College of Maryland Foundation	6,060
Towson University Foundation	4,964
Hagerstown Community College Foundation	4,905
Frederick Community College Foundation	4,211
The University of Maryland Baltimore Educational Foundation	3,718
Bowie State University Foundation	3,677
Alumni Association International	3,324
Howard Community College Foundation	3,319
The Maryland 4-H Foundation	1,498
Sub-Total	\$ 424,361
Operating Funds Invested into the Endowment	\$ 22,027
Total Endowment Fund	\$ 615,177

Investment Overview 2009

The 2009 fiscal year presented the most volatile and difficult period for investing in living memory. The U.S. sub-prime crisis that began in the summer of 2007 gave way to a broader credit crisis in 2008, culminating in a global crash in September and October for virtually all risk assets. Peak to trough declines for developed world equity markets were in the range of 50%, while some emerging market regions declined by as much as 60-70%. Credit markets became dysfunctional with sellers driving the yields for junk bonds over 20%, and investment grade bonds yielded several hundred basis points over Treasuries. Energy markets plunged with oil falling an astonishing 75% from last year's parabolic peak. Financial institutions ceased lending to all but the most credit-worthy borrowers. Lack of financing and a wave of selling overwhelmed the few remaining buyers for real estate and private companies. Government bonds and the U.S. dollar were the only asset classes that performed positively during the dislocation. Diversification failed to provide downside protection over the short time horizon when all risk assets experienced high correlation and traded with little regard for long-term fundamentals.

Performance

For the fiscal year ending June 30, 2009, the USM Foundation Endowment Fund returned -24.4%. This compares to the median return of -16.9% for the Wilshire TUCS universe. For the trailing five years, the Endowment generated an annualized investment return of 3.5%, placing it in the top quartile of the TUCS universe.

In terms of performance attribution, approximately 40% of the decline last fiscal year stems from the write-downs of our non-marketable investments in real estate, private equity, and energy and resources. No market existed for these assets during the panic and our managers responded accordingly with highly conservative valuations. The intrinsic value for many of these assets is higher than the mark-to-market accounting value assigned at the end of the year.

The global equities portfolio was the second largest detractor during the year. This portfolio returned -28%, slightly outperforming the -29% return from the MSCI World Index. The public equities component of this portfolio outperformed the benchmark by 4%, with a return of -25% for the year. The private equity portion fell 32% for the year, largely a

result of mark-to-market write-downs and the hesitancy of managers to write up investments during the final quarter when public markets surged in the spring.

The multi-strategy portfolio lost 14% for the year. Several years ago we shifted a portion of the endowment into this portfolio under the premise that it would provide complementary and superior risk-adjusted returns compared to equities while also offering some downside protection during down markets. Over the last five years, the multi-strategy portfolio produced an annualized return of 5% with a volatility of 7%, as compared to a -2% annualized return with a 16% volatility for the S&P 500 Index.

INVESTMENT COMMITTEE

Kenneth D. Brody, Chair

Partner, Taconic Capital

Joseph R. Hardiman, Vice Chair

Private Investor

Larry D. Boggs

Managing Director, Wells Fargo Advisors

George P. (Pat) Clancy

Executive Vice President, Chevy Chase Bank

Charles W. Cole, Jr.

Former Chair and CEO,
Legg Mason Trust Company

Joseph B. Gildenhorn

Partner, The JBG Companies

Kempton M. Ingersol

Managing Director,
Brown Capital Management

Neil Moskowitz

Former Chief Financial Officer, Credit Suisse

Paul H. Mullan

Vice Chairman,
Charterhouse Group International

Robert M. Pinkard

Principal,
The Pinkard Group, LLC

David C. Saunders

Managing Director, K2 Advisors

Thomas "Tim" Schweizer, Jr.

President, Brown Advisory Securities

INVESTMENT STAFF

Michael K. Barry

Chief Investment Officer

Vanessa L. Melendez

Director of Investments

Kevin T. Dalmut

Senior Investment Analyst

Kaylon J. McInelly

Operations Analyst

Carrie L. Roberts

Operations Assistant

AVERAGE ANNUALIZED COMPOUND RETURNS

(As of June 30, 2009)

	1-YEAR	3-YEAR	5-YEAR
USM Foundation	-24.4%	-2.9%	3.5%
TUCS Universe Median	-16.9%	-2.5%	2.1%
80% S&P 500/20% Barclays Agg.	-19.9%	-5.1%	-0.6%

Investment Strategy

The Investment Committee meets annually to evaluate the overall asset allocation for the Endowment. In prior years, we divided the portfolio into four categories: public markets (including public equities and multi-strategy absolute return focused funds), real assets, private equity, and fixed income. During fiscal year 2009, the committee re-defined the labels for our overall asset allocation policy to more accurately describe the risk profile for each category. The new category labels are: global equities, multi-strategy, real assets, and fixed income. Broad policy ranges were maintained so as to provide flexibility. While the nomenclature changed slightly, the actual composition of the portfolio did not change dramatically during the fiscal year.

ASSET ALLOCATION

(Fiscal Years Ending June 30)

	2005	2006	2007	2008	2009	CURRENT Policy Range
Global Equities	63%	57%	51%	43%	37%	30%-60%
Public Equities	56%	52%	45%	33%	25%	
Private Equities	7%	5%	6%	10%	12%	
Multi-Strategy	24%	21%	27%	28%	29%	20%-40%
Real Assets	9%	14%	18%	24%	25%	20%-30%
Energy & Resources	4%	9%	11%	16%	17%	
Real Estate	5%	5%	7%	8%	8%	
Bonds & Cash	4%	8%	4%	5%	9%	5%-10%

PERFORMANCE BY ASSET CLASS – AVERAGE ANNUALIZED COMPOUND RETURNS

(As of June 30, 2009)

	1-YEAR	3-YEAR	5-YEAR
Global Equities	-27.9%	-5.2%	1.2%
Public Equities	-25.1%	-5.0%	2.3%
Private Equities	-32.0%	-6.3%	-1.8%
S&P 500 Index	-26.2%	-8.2%	-2.2%
MCI World Index	-29.5%	-8.0%	0.1%
Multi-Strategy	-13.8%	1.6%	4.7%
HFR Fund of Funds Index	-15.2%	-1.1%	2.6%
Real Assets	-35.1%	-3.5%	12.9%
Public Energy & Resources	-48.5%	-8.1%	7.2%
Private Energy & Resources	-11.1%	3.7%	34.3%
Real Estate	-40.8%	-5.8%	0.7%
GSCI Commodities Index	-59.7%	-15.2%	-3.5%
NCREIF Value-Add Index	-40.6%	-8.4%	3.4%
Bonds & Cash	2.5%	4.5%	3.7%
Barclays Aggregate Index	6.1%	6.4%	5.0%
90-Day Treasury Bills	0.9%	3.3%	3.2%

Global Equity

The Global Equity portfolio is the largest allocation of the Endowment and designed to provide exposure to both public and private equity markets worldwide. The portfolio is diversified, covering a variety of investment philosophies, sectors, and geographies. We favor managers who employ deep fundamental company-specific research before making each investment. Our managers seek out high quality companies that generate strong returns on invested capital and steady growth of free cash flow, and that have sustainable competitive advantages.

Public Equity

The Public Equity portfolio provides exposure to the overall direction of global equity markets. The objective of this portfolio is to outperform the MSCI World Index on a risk-adjusted basis over a market cycle. We use passive index securities, long-only managers, long/short managers, and derivative instruments. In fiscal year 2009, this portfolio returned -25.1%, adding over 4% of relative value compared to the MSCI World Index. Over the past five years, this portfolio annualized at 2.3% while the benchmark was essentially flat. Consistent with our objective, these returns were achieved with roughly two-thirds the volatility of the benchmark.

Private Equity

The long time horizon of the Endowment allows for investment in private partnerships with the objective of providing excess returns above public market indices. USMF's private equity managers hold company stakes for several years before attempting a realization. Private capital managers identify companies that have the potential to benefit from a change in management, business, or operational strategy. We diversify this approach with managers that specialize in investing in companies at different stages of growth, and in different parts of a company's capital structure. Since private partnerships are very long-term in nature and have a limited amount of capital to invest, we seek to diversify over multiple "vintage years," or fund inception years.

As of June 30, 2009, we committed \$182 million to nine firms and 19 partnerships. Of those commitments, we have invested \$119 million, received \$35 million in profit distributions, and have a remaining market value of \$72 million. USMF invests in leveraged buyouts, growth equity, venture capital, and distressed strategies. We made no new commitments to private equity partnerships during fiscal year 2009. With a substantial amount of their funds still to be called, we are fortunate to be investing a significant portion of our commitments near the bottom of the cycle rather than at the top.

Multi-Strategy and Opportunistic

The Multi-Strategy and Opportunistic portfolio is designed to deliver equity-like returns over a full business cycle with lower volatility than the stock market. This portfolio also provides diversification to the endowment by generating returns independent of the stock market, and largely independent of the returns of other asset classes. At fiscal year end, the portfolio consisted of 11 managers who employ a variety of strategies including event-driven arbitrage, value-driven long/short equity, value-driven long/short credit, capital structure arbitrage, fixed income arbitrage, directional macro trading, and distressed securities. We hire managers that have a flexible mandate to invest in the best risk-adjusted opportunities around the globe.

In the past we labeled this portfolio "Absolute Return." We renamed the portfolio this year to more accurately describe the nature of these managers and how they are utilized in the Endowment. Whereas equity managers are constrained to a single asset class, either public or private equities, our multi-strategy managers are able to invest in any asset class, long or short. We rely on them to choose when and where to be invested or when to hold meaningful levels of cash. Our

PUBLIC EQUITIES PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Public Equities	-25.1%	-5.1%	2.3%	11.8%
MSCI World Index	-29.5%	-8.0%	0.1%	17.2%
S&P 500 Index	-26.2%	-8.2%	-2.2%	15.5%

“opportunistic” managers might focus only on one particular strategy, e.g., distressed credit investing or global macro investing. The key determinant of performance for all of the managers in this portfolio is skill rather than market exposure.

Last year proved especially challenging for our multi-strategy managers. During most market environments, these funds have successfully provided steady positive returns with a high degree of

alpha and low correlation to the markets. One of the overarching themes during the crash of 2008 was that virtually all risk assets around the globe moved in tandem. Company and security specific fundamentals were ignored as the wave of panicked and forced sellers discarded assets at fire-sale prices. These dislocations were quite painful for those invested in crowded markets such as leveraged loans, convertible bonds, and merger arbitrage. Amidst the wreckage,

our managers were able to find unbelievably attractive opportunities. While most investors last fall were worried about making it through the next day or week, let alone the end of the year, many of our funds were in a position to take a longer term view and buy assets at bargain-basement prices with huge margins of safety. Their efforts have already paid off this year as both credit and equity markets experienced an explosive rally.

MULTI-STRATEGY AND OPPORTUNISTIC PERFORMANCE HISTORY

Inception: June 1, 2000

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED VOLATILITY
Multi-Strategy & Opportunistic	-25.1%	-5.1%	2.3%	11.8%
HFRI Fund of Funds Composite Index	-29.5%	-8.0%	0.1%	17.2%
S&P 500 Index	-26.2%	-8.2%	-2.2%	15.5%

Real Assets

The objective of the Real Assets portfolio is to provide diversification and growth for the overall portfolio, while also serving as a hedge to inflation. Real Assets include both public and private companies in the following areas: energy, timber, metals, agriculture, infrastructure, alternative energy, and real estate.

Energy, Natural Resources, & Infrastructure

Managers in this portfolio invest in energy and natural resources as well as infrastructure associated with the exploration, production, transportation, and marketing of these resources. Some of these partnerships also own infrastructure projects for renewable energy such as wind, solar, and geothermal power.

As of June 30, 2009, we committed \$137 million to seven firms and 12 partnerships. Of those commitments, we have invested

\$87 million, received \$36 million in profit distributions, and have a remaining market value of \$64 million. Since its inception in 2004, the portfolio’s internal rate of return is 12.3% and has generated a 1.15x return on invested capital. Against the backdrop of plummeting commodities prices and a frozen transaction market, our managers took significant write-downs last year. They have been slow to mark these investments back up despite a recovery in energy prices in 2009. Over time, and in line with their originally anticipated investment hold period, the intrinsic values for most of these assets are substantially higher than their June 30 valuations. For the most part, our exploration and production related funds are all-cash buyers. Although the transaction market remains tight, when deals have become available our managers have been able to purchase assets at significant discounts to today’s commodity prices. If substantially higher

inflation becomes a reality in the future, it is likely energy commodity prices will be much higher. In such an environment, these funds should generate high returns.

Real Estate

As of June 30, 2009, we have committed \$139 million to 13 firms and 24 real estate funds. Since inception, we have invested \$93 million, received \$32 million in distributions, and have a remaining market value of \$51 million. This year the portfolio generated an IRR of -41% and accounted for 4% of the endowment’s overall decline. The real estate portfolio is broadly diversified with equity and debt investments in nearly 500 properties in the U.S., Europe, and Asia. We hire managers that take a value-add approach where they can improve the quality of a building’s interior and exterior space, increase leasing activity, or improve other aspects of day-to-day property management.

Real Estate | continued

Commercial real estate has been hit hard by this recession as unemployment spiked and drove up the supply of office space for rent. One of the key questions on the horizon is what will happen with refinancing for the more than \$1 trillion of commercial real estate loans that mature between now and 2012. There has been limited transaction activity in the market as sellers refuse to lower their prices hoping to ride out the storm, and buyers remain unable to obtain financing. Lenders “pretend and extend” with borrowers eager to negotiate terms well in advance of debt maturities. The average value-add or opportunistic real estate player typically used 60% to 80% debt in their acquisitions during the boom years. The gross values of those properties have declined anywhere from 10% to 30% depending on the geographic market and product segment. The resulting hit on equity values has been severe and in many cases owners lost their entire investment. Many of the premier real estate investors across the country have been caught in this environment and will need patience, skill, and a stroke of good luck to return all of their investors’ original capital. Real estate has always been a boom and bust asset class. This year provides a painful reminder of how leverage can negatively affect the market value of an investment during a recession.

We anticipate the next phase of the real estate cycle will be characterized by restructurings, rising cap rates, challenging leasing environments with increased concessions, and a large number of complex transactions with distressed sellers. We believe the coming years may provide a great opportunity to acquire high quality properties in the best markets at attractive unlevered yields. Such windows tend to open only once every couple of decades and not for very long. With a substantial portion of our commitments still outstanding, we are excited about our managers’ prospects.

Bonds & Cash

The Bonds & Cash allocation provides general liquidity for spending and capital calls. Our cash portfolio is invested in a short-term account with returns similar to three-month Treasury bills. During the fiscal year, we opportunistically invested in high quality corporate bonds, high yield bonds, and mortgages, all of which were trading at substantially discounted prices and attractive yields. During the 2009 fiscal year, our bond portfolio delivered a net return of 6.4% compared to 6.1% for the Barclays Aggregate Bond index.

Operating Fund

Funds under management in the Operating Fund totaled \$109.2 million as of June 30, 2009. Operating Funds are designed for current use and our account holders expect to be able to withdraw their full amounts at any given time. As a result, the ability to take risk on an individual account level is very low regardless of the potential willingness of each individual account holder. However,

these funds are pooled and, based upon historical cash flows, it is highly probable that a substantial portion of the funds remain invested in the pool.

The Finance Committees of our Operating Fund clients have agreed to an investment strategy that seeks to generate an annualized return between 3%-5% with a possible downside of -10% in very difficult markets. The market environment last fiscal year proved challenging for the Operating Fund and tested the strategy under extreme conditions. The results, while disappointing, were in line with what we accepted might happen in such an environment, given our policy risk and return expectations drafted several years ago. As we have discovered, the satisfaction offered by strong returns in the good years was dwarfed by the overwhelming disappointment of the bad year. In response to our clients, we have reaffirmed the investment policy, risk and return expectations. Our clients have reapproved the Operating Fund strategy in its current form with some minor adjustments to the asset allocation.

PERFORMANCE

ASSET CLASS	POLICY RANGE	ACTUAL, JUNE 2009
Fixed Income	40% - 60%	51%
Absolute Return	20% - 40%	21%
Endowment Investment Pool	0% - 20%	20%
Cash	0% - 25%	8%

PERFORMANCE HISTORY

	1-YEAR ANNUALIZED RETURN	3-YEAR ANNUALIZED RETURN	5-YEAR ANNUALIZED RETURN
Operating Fund	-9.3%	1.5%	3.4%
Merrill Lynch 90-day T-bills Index	1.0%	3.3%	3.2%

Fiscal Years Ending June 30	2009	2008	2007	2006	2005
Operating Fund	-9.3%	2.4%	12.6%	7.0%	5.7%
Merrill Lynch 90-day T-bills	1.0%	3.6%	5.2%	4.0%	2.2%

Looking Ahead

These remain the most challenging yet interesting times to be an investor. For now, it appears that the coordinated efforts by central banks and governments to inject massive monetary and fiscal stimulus into the global economy has successfully kept the world from falling into a depression. Markets have responded in kind, with an extraordinary rally off the March lows. Credit spreads have tightened back to pre-crisis levels. Stock markets, which never truly got to rock-bottom valuation levels, now appear expensive again. With interest rates still near the bottom end of their historic levels, investors are faced with the difficult decision of asset allocation in what looks to be a low return, higher risk environment. We continue to evaluate all of our relationships and improve our risk management capabilities. The Investment Committee and staff remain highly focused on managing through these difficult periods with a long-term investment perspective. We remain confident in our strategy and the ability of our managers to provide growth for the endowment. As always, please feel free to call the Investment Office with your questions, comments, or concerns.



Financial Highlights

Audit Committee Report

The Audit Committee of the University System of Maryland Foundation, Inc. (the Foundation) has reviewed and discussed with the Foundation's management and PricewaterhouseCoopers LLP the audited financial statements of the Foundation as of and for the year ended June 30, 2009, to be included in the Foundation's annual report. The audit committee has also discussed with PricewaterhouseCoopers LLP the matters required to be discussed pursuant to applicable Statements on Auditing Standards adopted by the American Institute of Certified Public Accountants, which matters include, among other things, matters related to the conduct of the audit of the Foundation's financial statements.

The Audit Committee has received and reviewed the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 ("Independence Discussions with Audit Committees"), and has discussed with PricewaterhouseCoopers LLP its independence from the Foundation.

Based on the review and discussions referred to above, the Audit Committee recommended to the board of directors of the Foundation that the audited financial statements be included in the Foundation's annual report.

SUBMITTED BY THE AUDIT COMMITTEE:

Robert A. Bedingfield <i>Chair</i>	Paul H. Mullan
Michael E. Meegan <i>Vice Chair</i>	Tonia L. Pankopf
Walter R. Fatzinger, Jr.	C. E. "Ted" Peck
William M. Gust	Leonard R. Raley
LeRoy J. Herbert	Jesse T. Williams
Arthur S. Mehlman	Sam A. Zappas

FINANCIAL HIGHLIGHTS (In thousands)

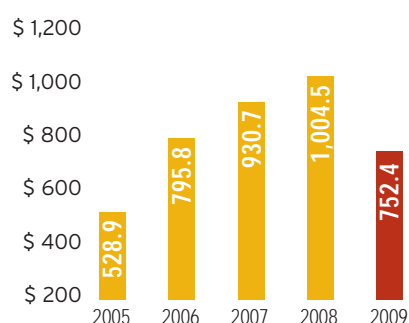
	June 2009	June 2008	% Change
Total Assets	\$ 752,399	\$ 1,004,535	(25.1)%
Net Assets	\$ 247,800	\$ 320,171	(22.6)%
Total Revenues	\$ (35,379)	\$ 37,046	(195.5)%
Program & Operating Expenses	\$ 36,315	\$ 33,007	10.0%



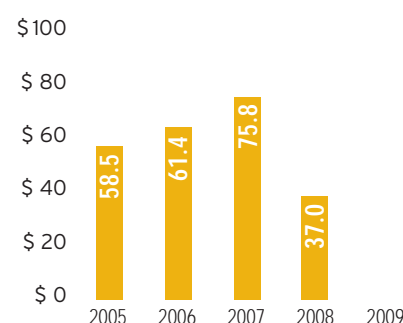
EXPENSES (In thousands)

65.3%	Program Support	\$ 23,726
13.7%	Scholarship	\$ 4,988
12.1%	General & Administrative Other	\$ 4,385
6.0%	Fundraising	\$ 2,183
2.9%	General & Administrative Institution Support	\$ 1,033
TOTAL		\$ 36,315

ASSETS (In millions)



REVENUES (In millions)



Management's Financial Responsibility

The Foundation's management assumes responsibility for the fair presentation of the consolidated financial statements, prepared in accordance with generally accepted accounting principles (GAAP), and has full responsibility for their integrity and accuracy.

Management, in concert with the board of directors, established and maintains a strong ethical climate as we are committed to ensuring that we properly account for those funds we hold on behalf of donors and the institutions we serve. In addition, we believe the system of internal control in place provides reasonable assurance as to the integrity and the accuracy of those financial statements and the other activities performed.

Management recognizes its fiduciary responsibility for the oversight of funds, contributed by donors for the benefit of the institutions of the University System of Maryland, under its control and investment management.

Our executive auditor maintains oversight over key areas and reports directly to our Audit Committee.

PricewaterhouseCoopers LLP, our independent auditor, reports directly to the Audit Committee.



Leonard R. Raley
President and CEO



Joyce Romanoff Marx
Vice President for Finance and CFO

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, 2009 and 2008, 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.



December 2, 2009

Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[June 30, 2009 and 2008 – in thousands]

ASSETS	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,007	\$ 468
Accounts receivable	3,653	2,825
Receivable from investments sales	5,264	3,867
Accrued interest receivable	512	813
Contributions receivable - current portion	9,074	10,096
Other current assets	334	890
Total Current Assets	19,844	18,959
INVESTMENTS		
Endowment	164,270	240,626
Operating	51,309	48,389
Held for other foundations	494,855	671,713
Total Investments	710,434	960,728
OTHER ASSETS		
Contributions receivable—long term portion	10,416	13,544
Contributions receivable from remainder trusts	826	930
Angus breeding herd, trademark, logo, records, and data bank	1,717	1,180
Real and personal property	7,807	7,698
Assets held for sale	3	550
Other assets	1,352	946
Total Other Assets	22,121	24,848
TOTAL ASSETS	\$ 752,399	\$ 1,004,535

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[June 30, 2009 and 2008 – in thousands]

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,120	\$ 2,117
Payable for investment purchases	897	2,727
Deferred income	710	667
Total Current Liabilities	4,727	5,511
OTHER LIABILITIES		
Payables under split-interest agreements	4,575	5,943
Due to other foundations and affiliates	495,297	672,910
Total Other Liabilities	499,872	678,853
Total Liabilities	504,599	684,364
NET ASSETS		
Unrestricted	43,259	60,692
Temporarily restricted	60,696	62,290
Permanently restricted	143,845	197,189
Total Net Assets	247,800	320,171
TOTAL LIABILITIES AND NET ASSETS	\$ 752,399	\$ 1,004,535

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

[For the year ended June 30, 2009 – in thousands]

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

[For the year ended June 30, 2008 – in thousands]

	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	30,487	3,234	3,325	37,046
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	33,007	—	—	33,007
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	\$ 60,692	\$ 62,290	\$ 197,189	\$ 320,171

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

[For the years ended June 30, 2009 and 2008 – in thousands]

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Change in net assets	\$ (72,371)	\$ (386)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities		
Net realized and unrealized losses/(gains) on investments	70,584	(364)
Realized gains on investments for split interest agreements	(9)	(67)
Realized and unrealized losses/(gains) on managed funds	158,269	(10,360)
Realized and unrealized gains on transfers per Board resolution	—	(9)
Depreciation and amortization	252	75
Increase in deferred income	43	604
Gift of investments	(250)	(187)
Gift of real and personal property	(109)	(22)
Increase in accounts receivable	(828)	(1,172)
Decrease/(increase) in accrued interest receivable	301	(147)
Decrease/(increase) in contributions receivable	4,150	(2,091)
Decrease/(increase) in other current assets	567	(648)
Decrease in contributions receivable from remainder trusts	104	163
Increase/(decrease) in accounts payable and accrued expenses	1,003	(641)
(Decrease)/increase in due to other foundations and affiliates	(177,613)	73,005
Contributions restricted for long-term investment	(9,744)	(7,921)
Total adjustments	46,720	50,218
Net cash and cash equivalents (used in)/provided by operating activities	(25,651)	49,832

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

[For the years ended June 30, 2009 and 2008 – in thousands]

CASH FLOWS FROM INVESTING ACTIVITIES	2009	2008
Purchases of investments	(967,526)	(478,517)
Sales of investments	988,689	423,750
Increase in receivables from investment sales	(1,397)	(3,738)
(Decrease)/increase in payable for investment purchases	(1,830)	1,463
Decrease/(increase) in cash surrender value of life insurance	66	(8)
Purchases and sales of equipment and real and personal property, net	(735)	(563)
Proceeds from sale of assets held for sale	547	61
Net cash and cash equivalents provided by/(used in) investing activities	17,814	(57,552)
CASH FLOWS FROM FINANCING ACTIVITIES	2009	2008
Proceeds from contributions restricted for long-term investment	9,744	7,921
Decrease in payables under split-interest agreements	(1,368)	(216)
Net cash and cash equivalents provided by financing activities	8,376	7,705
Net increase/(decrease) in cash and cash equivalents	539	(15)
CASH AND CASH EQUIVALENTS	2009	2008
Beginning of year	468	483
End of year	\$ 1,007	\$ 468

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

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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 Note 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 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 are 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.

Valuation of 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 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, and also includes management's use of the audited financial statements that report these investments at net asset value reflecting the fair value of the underlying holdings, 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 Statements 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 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.

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, 2009 and 2008 which does not include \$11.6 million and \$24.1 million fees paid to the investment managers relating to investments held for other foundations for fiscal years ending June 30, 2009 and 2008, respectively. See section Due to Other Foundations and Affiliates below.

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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

2008 [in thousands]	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Realized and unrealized gains (losses) 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	1,485	628	8,177	10,290
Realized and unrealized gains (losses) on investments and other, net of fees as recorded in the consolidated Statements of Activities	\$ (1,111)	\$ 5,833	\$ (4,358)	\$ 364

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. 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 years ended June 30, 2009 and 2008 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 \$1.7 million and \$1.8 million for the years ended June 30, 2009 and 2008, respectively.

The amounts due to other foundations and affiliates at June 30, 2009 and 2008, were as follows (in thousands):

	2009	2008
Coppin State College Development Foundation, Inc.	\$ 6,345	\$ 8,819
Bowie State University Foundation	3,677	4,922
Alumni Association International	3,324	4,673
University of Baltimore Foundation	3,396	4,676
Towson University Foundation	4,581	6,759
Frostburg State University Foundation	11,073	14,808
UMCP Foundation	182,239	237,099
UMB Foundation	96,989	128,925
University System of Maryland	163,683	235,568
Maryland 4-H Foundation	1,498	1,947
Allegany College of Maryland Foundation	6,059	7,383
Frederick Community College Foundation	4,211	6,106
Howard Community College Foundation	3,318	4,377
Hagerstown Community College Foundation	4,904	6,848
Total	\$ 495,297	\$ 672,910

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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, 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 in IRS actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under IRC Section 75206(a) and ranged from 2.8% to 10.6%.

Administrative Fees

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

Investments - operating – For the years ended June 30, 2009 and 2008 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, 2009 and 2008, 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.

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 for the years ended June 30, 2009 or 2008.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the current year's presentation.

New Accounting Pronouncements

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position 117-1 ("FSP 117-1") "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a non-for-profit organization that is subject to enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The State of Maryland passed UPMIFA into law in April 2009 making the provisions of FSP 117-1 effective for fiscal 2009. UPMIFA stipulates that for each donor-restricted endowment fund, unless otherwise stated, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the organization. Therefore, a not-for-profit organization shall classify the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. UPMIFA also prescribes new guidelines for the expenditure of a donor-restricted endowment fund. The Foundation adopted FSP 117-1 during fiscal 2009 and the effect of the adoption was not material to the financial statements.

3. Fair Value Measurements

In February, 2007, the FASB issued Statement of Financial Accounting Standards No 159, "The Fair Value for Financial Assets and Financial Liabilities" ("SFAS 159"). 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. The Foundation adopted SFAS 159 effective July 1, 2008. Our adoption of SFAS 159 did not have a material effect on the financial statements since we did not elect to apply the fair value option for any eligible financial instruments or other items.

Effective July 1, 2008, The Foundation adopted the provisions of the Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements", which defines fair value 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, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

fair value measurements. Adopting SFAS 157 did not have a material impact on the Foundation financial position and results of operations.

SFAS 157 discusses valuation techniques such as the market approach, cost approach and income approach. SFAS 157 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 includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in corporate private equity and investment funds as well as off-shore hedge funds in which the Foundation does not have readily available access due to lock up

periods and/or partnership agreements. In addition, the Foundation depends on the General Partner or the Investment Manager of the investment for pricing information.

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

Management of the Foundation reviewed the investments and determined that based on the following criteria for FAS 157 other than the direct holdings in equities and bonds that trade on the open market all of the Foundation's investments have been classified as Level 3 as they have unobservable input and are not readily tradable for the reason noted under Level 3.

The following table presents the financial investments carried at fair value as of June 30, 2009, by caption on the Statement of Financial Position, by the SFAS 157 valuation hierarchy defined above:

	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds and short-term investments ⁽¹⁾	\$ 69,687	\$ 69,687	\$ —	\$ —
Corporate and foreign bonds ⁽²⁾	27,076	—	27,076	—
Equities ⁽³⁾	6,181	6,181	—	—
United States Treasury notes and bonds ⁽²⁾	15,633	—	15,633	—
United States Agencies ⁽²⁾	9,017	—	9,017	—
Collateralized mortgage obligations/asset and mortgage backed securities ⁽²⁾	17,519	—	17,519	—
Absolute return ⁽⁴⁾⁽⁵⁾	176,793	—	—	172,904
Long/short equity hedge funds ⁽⁵⁾	204,765	—	—	208,654
Private capital ⁽⁶⁾	66,136	—	—	66,136
Real estate and energy and natural resources ⁽⁷⁾	117,627	—	—	117,627
Totals	\$ 710,434	\$ 75,868	\$ 69,245	\$ 565,321

(1) Money market funds and short-term investments include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. 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 bonds, and mortgage backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered Level 2. These investments fluctuate in value based upon changes in interest rates.

(3) Equities consist of products that are readily marketable.

(4) 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.

(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 SFAS 157 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 that ability and, therefore, has classified investments in those vehicles as Level 3.

(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. The value of the assets in the private capital investments are estimated by the General Partner ("GP") using many factors. Management reviews the audited financial statements of the investments, which report net assets values based principally on the fair value of the underlying holdings, and the quarterly valuation reports for reasonableness as well as the manager's valuation process. Management feels comfortable with the valuations provided based on this review. However, as noted in their audited financial statements the GPs value the majority of those assets as Level 3 and management concurs with this valuation. In addition, as these investments are through partnerships which are for a specific period of time and the only market for this asset is what is called the secondary market, management, unless forced, intends to retain its share in the partnership until the partnership expires. Management believes the entire value of these investments fall under Level 3.

(7) 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. These partnerships have been labeled as Level 3 based on their lock up periods and the transparency of their assets.

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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:

	Significant Unobservable Inputs (Level 3)
Fair value recorded at June 30, 2008	\$ 808,259
Unrealized losses	(232,295)
Realized losses	(3,745)
Net purchases (sales)	(6,898)
Fair value recorded at June 30, 2009	\$ 565,321

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

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 69,687	\$ 69,687	\$ 26,241	\$ 26,241
Corporate and foreign bonds	27,076	27,102	35,491	36,160
Equities	6,181	8,071	44,876	39,730
United States Treasury notes and bonds	15,633	15,677	39,041	38,749
United States Agencies	9,017	8,922	—	—
Collateralized mortgage obligations/asset and mortgage backed securities	17,519	18,019	10,335	10,731
Absolute return	176,793	153,466	217,871	170,261
Long/short equity hedge funds	204,765	194,379	372,087	243,550
Private capital	66,136	94,611	82,083	74,542
Real estate and energy and natural resources	117,627	138,235	132,703	109,486
Totals	\$ 710,434	\$ 728,169	\$ 960,728	\$ 749,450

Of the fair value noted above at June 30, 2009 and 2008, \$611.4 million and \$854.4 million, respectively, is invested in the endowment pool and \$87.4 million and \$106.3 million, respectively, is invested in the operating portfolio. There are \$11.6 million in investments not invested with the pools at June 30, 2009.

The Foundation committed \$458.2 million to private capital, real estate, and energy and natural resource partnerships of which \$290.0 million and \$234.5 million has been called as of June 30, 2009 and 2008, 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, 2009 and 2008, the custodian held approximately \$141.0 million and \$152.3 million, respectively, in trust. Other assets are held by individual fund administrators and within the partnerships.

5. Contributions Receivable

As of June 30, 2009 and 2008, contributors to the Foundation unconditionally promised to give approximately \$19.5 million and \$25.1 million, respectively. (continued next page)

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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

	2009	2008
Within one year	\$ 9,304	\$ 9,809
One to five years	11,105	14,740
More than five years	581	623
Subtotal	20,990	25,172
Less: present value component	1,500	1,532
Net contributions receivable	\$ 19,490	\$ 23,640

The discount rates used to calculate the present value component:

For the pledge year ended June 30,

	1-5 years	5-plus years
2009	5.75%	6.75%
2008	2.26%	3.38%

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 and \$0.9 million at June 30, 2009 and 2008, 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, 2009 and 2008. In addition, the Foundation is

owner and beneficiary of policies with face amounts of \$758,000 and \$758,000 and cash surrender values of approximately \$213,112 and \$198,803 at June 30, 2009 and 2008, respectively.

Bequests and Intentions (Unaudited)

Contributors have informed the Foundation of intentions to give approximately \$15.8 million and \$19.0 million at June 30, 2009 and 2008, respectively. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

7. Endowments

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

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

2009	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-Restricted Endowment Funds	\$ 10,386	\$ 7,633	\$ 143,845	\$ 161,864
Board-Designated Endowment Funds	4,731	3,375	—	8,106
Total Funds	\$ 15,117	\$ 11,008	\$ 143,845	\$ 169,970
2008	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-Restricted Endowment Funds	\$ 15,090	\$ 10,366	\$ 197,189	\$ 222,645
Board-Designated Endowment Funds	4,842	6,430	—	11,272
Total Funds	\$ 19,932	\$ 16,796	\$ 197,189	\$ 233,917

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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

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

2008	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment Net Assets, beginning of the year	\$ 20,220	\$ 16,921	\$ 195,836	\$ 232,977
Investment Return				
Investment income	635	206	(261)	580
Net depreciation (realized and unrealized)	528	1,403	(4,358)	(2,427)
Total Investment Return	1,163	1,609	(4,619)	(1,847)
Contributions	73	1,717	7,944	9,734
Appropriation of endowment assets for expenditure	(481)	(2,041)	—	(2,522)
Transfers to create Board designated endowment funds	(1,043)	(1,410)	(1,972)	(4,425)
Endowment Net Assets, end of year	\$ 19,932	\$ 16,796	\$ 197,189	\$ 233,917

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):

	2009	2008
Academic programs	\$ 32,243	\$ 62,624
Student support	76,927	101,260
University advancement	402	338
Research	2,151	1,812
Faculty support	32,122	31,155
Total	\$ 143,845	\$ 197,189

Temporarily Restricted Net Assets—Endowment Funds

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

	2009	2008
Academic programs	\$ 1,124	\$ 6,873
Student support	7,778	7,562
University advancement	—	—
Research	931	1,122
Faculty support	1,175	1,239
Total	\$ 11,008	\$ 16,796

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

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 GAAP, deficits of this nature that are reported in unrestricted net assets were approximately \$8.0 million as of June 30, 2009. There were no deficits at June 30, 2008. These deficits resulted from unfavorable market fluctuations that occurred shortly 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.

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 April, 2009 is as follows:

Categories	Ranges
Global Equities	30% – 60%
Multi Strategy & Opportunistic Strategies	20% – 40%
Real Assets	20% – 30%
Cash & Bonds	5% – 10%

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 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 Committee, however, may make an exception in special circumstances.

3. Rebalancing: In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations ranges.

Spending Policy and Relationship of Spending Policy to Investment Objectives

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. If the agreement with the donor so

provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Some agreements provide that the corpus can be invaded to provide for spending stability.

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

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

a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.

b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI) (Changed from Consumer Price Index (CPI) effective February 14, 2008).

The spending rates for 2009 and 2008 were 4.33% and 4.45%, respectively.

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 Investment 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.

For the fiscal year ended June 30, 2010, the Board approved a one-year blanket carry-over for all unspent appropriated funds as of June 30, 2009.

8. Restricted Net Asset Activity

Temporarily Restricted Net Assets

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

	2009	2008
Academic programs	\$ 28,431	\$ 34,444
Student support	18,519	12,816
University advancement	1,896	873
Research	10,089	10,235
Faculty support	1,761	3,922
Total	\$ 60,696	\$ 62,290

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):

	2009	2008
Academic programs	\$ 11,129	\$ 7,123
Student support	7,785	5,365
University advancement	646	754
Research	4,710	6,078
Faculty support	2,883	2,610
Total	\$ 27,153	\$ 21,930

Notes to Consolidated Financial Statements

[June 30, 2009 and 2008]

Certain 2009 balances related to Title III Grant funding received from the Federal Government have been revised to reflect correct presentation of restrictions on these grants. Net assets released from restrictions 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 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, 2009 and 2008 was approximately \$234,000 and \$183,000, respectively.

10. Contributed Services and Office Space

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

11. Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c) (3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the year ended June 30, 2009, therefore, no provision for income taxes had been made. The Foundation paid approximately \$492,000 in taxes attributable to fiscal year 2008.

As the USMF Corporation (see Note 16) is in a net operating loss position for the year ended June 30, 2009, there is an estimated \$394,000 refund of taxes paid for the year ended June 30, 2008 from a net operating loss carryback. There remains a net operating loss of approximately \$1.2 million to carry forward to future years for tax purposes.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", which provides additional guidance and clarifies the accounting for uncertainty of income tax positions. FIN 48 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. FIN 48 also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. In October 2008, the FASB voted to continue the deferral of FIN 48, for non-public companies and not-for-profits, for an additional year until fiscal years beginning after December 15, 2008. Management does not expect the adoption of FIN 48 to have a material impact on its financial statements and will adopt FIN 48 during the year ended June 30, 2010.

12. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally restricted cash and investments associated with annuity liabilities of approximately \$4.6 million and \$5.9 million as of June 30, 2009 and 2008, 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 \$23.9 million or 3.2% and \$73.2 million or 7.3% of the Foundation's total assets of \$752 million and \$1 billion at June 30, 2009 and 2008, respectively, are invested in entities that have associations with members of the Foundation's Board of Trustees.

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 as of June 30, 2008.

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, 2009 and 2008 by the Alumni Association. A total of \$1,610,000 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.

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, 2009 and 2008, this corporation held \$14.1 million and \$15.3 million in assets and has a net operating loss of \$7.2 million for the year ended June 30, 2009 and a net operating gain of \$12.3 million for the year ended June 30, 2008 both of which are reflected in the consolidated financial statements.

17. Subsequent Events

Subsequent events have been evaluated by management through December 2, 2009, which is the date the financial statements were issued.

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For more information, please contact the USM Foundation office.

Leonard R. Raley

President and CEO/Vice Chancellor for Advancement
301-445-1941, raley@usmd.edu

David A. Balcom

Vice President for Board Relations/Associate Vice Chancellor for Advancement
301-445-2721, dbalcom@usmd.edu

Michael K. Barry

Chief Investment Officer
202-296-1209, mbarry@usmd.edu

Marianne Horrigan

Assistant Vice Chancellor for Advancement and Strategic Initiatives
301-445-2708, horrigan@usmd.edu

Vladimir Jirinec

Director of Advancement Services
301-445-2711, vjirinec@usmd.edu

Joyce R. Marx

Vice President for Finance and CFO
301-445-2712, jmarx@usmd.edu

Donna J. Meyer

Director of Advancement Research
301-445-1952, dmeyer@usmd.edu

Pamela Purcell

Vice President and General Counsel/Director of Planned Giving Services
301-445-2720, ppurcell@usmd.edu

USMF FOUNDATION

SERVING THE UNIVERSITY SYSTEM OF MARYLAND

3300 Metzerott Road • Adelphi, MD 20783

www.usmf.org