University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Financial Statements
Years Ended June 30, 2019 and 2018

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Contents

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Independent Auditor's Report

To the Board of Directors of the
University System of Maryland Foundation, Inc. and Subsidiary
Adelphi, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University System of Maryland Foundation, Inc. and Subsidiary (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University System of Maryland Foundation, Inc. and Subsidiary as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

September 16, 2019

Consolidated Financial Statements

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, (in thousands)	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 151	$ 310
Accounts receivable	45	153
Accrued interest receivable	467	288
Contributions receivable - current portion	330	1,549
Other current assets	273	67
Total current assets	1,266	2,367
Investments		
Endowment	296,031	285,509
Operating	61,822	60,495
Held for other foundations	1,209,298	1,107,580
Total investments	1,567,151	1,453,584
Other assets		
Contributions receivable, net - long term portion	9,515	10,873
Contributions receivable from remainder trusts	800	807
Angus breeding herd, trademark, logo, records, and data bank	2,004	2,093
Real and personal property, net	12,141	11,997
Other assets	456	467
Total other assets	24,916	26,237
Total assets	$ 1,593,333	$ 1,482,188
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 4,280	$ 4,058
Deferred income	1,777	2,141
Total current liabilities	6,057	6,199
Other liabilities		
Payables under split-interest agreements	3,025	3,254
Due to other foundations and affiliates	1,209,720	1,108,019
Total other liabilities	1,212,745	1,111,273
Total liabilities	1,218,802	1,117,472
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	48,582	51,187
Designated by Board	15,259	12,779
	63,841	63,966
With donor restrictions	310,690	300,750
Total net assets	374,531	364,716
Total liabilities and net assets	$ 1,593,333	$ 1,482,188

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

	2019			2018		
Year ended June 30, (in thousands)	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions and grants	**$ 2,200**	**$ 15,750**	**$ 17,950**	$ 2,177	$ 16,866	$ 19,043
Investment return, net	**1,502**	**16,759**	**18,261**	2,152	21,593	23,745
Other program income	**208**	**-**	**208**	399	-	399
Courses and conferences	**1,236**	**2**	**1,238**	1,312	2	1,314
Sales and services	**5,268**	**-**	**5,268**	5,284	-	5,284
Change in value of split-interest agreements	**-**	**45**	**45**	-	(79)	(79)
Net assets released from restrictions	**22,541**	**(22,541)**	**-**	19,056	(19,056)	-
				-	-	-
Total revenues	**32,955**	**10,015**	**42,970**	30,380	19,326	49,706
Expenses						
Program services						
Wye Herd	**374**	**-**	**374**	415	-	415
Academic	**2,736**	**-**	**2,736**	3,000	-	3,000
Scholarships	**6,619**	**-**	**6,619**	4,962	-	4,962
Chair program	**1,510**	**-**	**1,510**	1,034	-	1,034
Research	**4,042**	**-**	**4,042**	3,832	-	3,832
Department support	**4,237**	**-**	**4,237**	3,281	-	3,281
Other programs	**6,221**	**-**	**6,221**	6,336	-	6,336
Total program services	**25,739**	**-**	**25,739**	22,860	-	22,860
Supporting services						
Management and general	**4,410**	**-**	**4,410**	3,840	-	3,840
Fundraising	**2,901**	**-**	**2,901**	2,196	-	2,196
Total supporting services	**7,311**	**-**	**7,311**	6,036	-	6,036
Total expenses	**33,050**	**-**	**33,050**	28,896	-	28,896
Change in net assets before transfers	**(95)**	**10,015**	**9,920**	1,484	19,326	20,810
Transfers to System Affiliated Foundations	**(30)**	**(75)**	**(105)**	(347)	(6)	(353)
Change in net assets	**(125)**	**9,940**	**9,815**	1,137	19,320	20,457
Net assets, beginning of year	**63,966**	**300,750**	**364,716**	62,829	281,430	344,259
Net assets, end of year	**$ 63,841**	**$ 310,690**	**$ 374,531**	$ 63,966	$ 300,750	$ 364,716

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

June 30, (in thousands)		**2019**		2018
Cash flows from operating activities				
Change in net assets	**$**	**9,815**	$	20,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Change in unrealized gains on investments		**(3,008)**		(21,140)
Change in unrealized losses (gains) on investments for split interest agreements and others		**58**		(31)
Accretion on contribution receivable discount		**(146)**		(31)
Loss on disposal on real and personal property		**24**		34
Depreciation		**66**		107
Bad debt expense		**233**		1,203
Change in cash surrender value of life insurance		**9**		(14)
(Increase) decrease in assets:				
Accounts receivable		**108**		5
Accrued interest receivable		**(179)**		(207)
Contributions receivable		**2,490**		1,906
Other current assets		**(206)**		(47)
Contributions receivable from remainder trusts		**7**		(11)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		**222**		741
Deferred income		**(364)**		(178)
Payables under split-interest agreements		**(229)**		(111)
Due to other foundations and affiliates		**101,701**		139,504
Net cash provided by operating activities		**110,601**		142,187
Cash flows from investing activities				
Purchases of investments		**(279,063)**		(696,361)
Contributions restricted for long-term investment		**(4,704)**		(5,570)
Proceeds from sales or distribution of investments		**168,537**		555,045
Purchases of real and personal property		**(234)**		(703)
Net cash used in investing activities		**(115,464)**		(147,589)
Cash flows from financing activities				
Proceeds from contributions restricted for long-term investment		**4,704**		5,570
Net cash provided by financing activities		**4,704**		5,570
(Decrease) increase in cash and cash equivalents		**(159)**		168
Cash and cash equivalents, beginning of year		**310**		142
Cash and cash equivalents, end of year	**$**	**151**	$	310
Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**63**	$	1,174

See accompanying notes to consolidated financial statements.

1. Nature of Operations

The University System of Maryland Foundation, Inc. (the "Foundation" or "USMF", also known as The University of Maryland Foundation, Inc.), a separately incorporated independent Foundation, manages funds received for the benefit of the Institutions of the University System of Maryland ("USM") or community colleges and affiliated educational organizations within the State of Maryland. 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.

The Foundation is comprised of two separately accounted-for divisions: the University System of Maryland Foundation Funds and the Wye Herd, as well as a wholly owned subsidiary for-profit corporation, the USMF Corporation (refer to Note 14 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 are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting. As described in Note 1, the Foundation is comprised of two divisions as well as a wholly 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 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.

Accounts Receivable

Accounts receivable consists primarily of monies due from affiliated institutions for payments made by the Foundation on behalf of those institutions. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2019 and 2018. The Foundation's policy is to write-off all receivables that are deemed to be uncollectible. Accounts receivable are written off if reasonable collection efforts are unsuccessful.

Contributions Receivable

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of June 30, 2019 and 2018. 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 discount rate of 6.50% and 6.00% for the years ended June 30, 2019 and 2018, respectively. The Foundation's policy is to write-off all contributions receivable that are deemed to be uncollectible.

Investments

Investments are stated at fair value. Unrealized and realized gains and losses are included in the consolidated statements of activities and changes in net assets.

Investments in publicly traded equity and debt securities are stated at quoted market values. For all of these investments, the Foundation has concluded that the net asset values reported by the individual fund managers approximates the fair value of the investments. Changes in fair values are reported as unrealized gains or losses in the accompanying consolidated statements of activities and changes in net assets.

Alternative investments may include absolute return funds, long/short equity hedge funds and private capital funds for which there may be no ready market to determine fair value. For these investments, the Foundation has concluded that either the net asset values reported by the individual fund managers or the ownership percentage of the fund's net assets approximate the fair value of the investments. These estimated values do not necessarily represent the amounts that will ultimately be realized upon the disposition of those assets, which may be materially higher or lower than values determined if a ready market for the securities existed.

Valuation of Investments

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

The change in net unrealized gains or losses on investment securities is reflected in the consolidated statements of activities and changes in net assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed monthly among the individual endowment accounts on the basis of the number of units of the pool held by each individual endowment account.

See Note 3 for further details on valuation of investments.

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.

Real and Personal Property

Real and personal property is carried at cost. The Foundation's policy is to charge all additions over $1,000 (in dollars) 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. Depreciation expense totaled $0.07 million and $0.1 million for the years ended June 30, 2019 and 2018, respectively. Asset and accumulated depreciation accounts are relieved when an asset is sold or otherwise disposed. Accumulated depreciation totaled $2.6 million and $2.5 million for the years ended June 30, 2019 and 2018, respectively. All artwork and land given to the Foundation are annually reviewed to determine if there is any impairment and to determine that the asset's book value is still reasonable given these assets are not depreciated.

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.

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 the affiliated foundations an annual management fee which is comprised of a separate investment services fee and an administrative fee. The fees are assessed in relation to the individual management contracts each affiliated foundation has with the Foundation and are based on the fair value of endowment and operating funds administered. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled $4.0 million and $3.5 million for the years ended June 30, 2019 and 2018, respectively, and are included in sales and services in the consolidated statements of activities and changes in net assets.

Foundation management, based on other foundations' and affiliates' requests, designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses, 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. Professional investment fees are paid to the investment managers prior to the distribution of income.

The amounts due to other foundations and affiliates at June 30, 2019 and 2018, were as follows (in thousands):

	2019	2018
Allegany College of Maryland Foundation	$ 13,240	$ 12,159
Alumni Association International	5,028	4,899
Association of Writers and Writing Program	-	2,747
Bowie State University Foundation	8,458	7,777
Community College of Baltimore County	11,912	10,978
Coppin State College Development Foundation, Inc.	9,037	8,574
Frederick Community College Foundation	16,083	15,720
Frostburg State University Foundation	26,767	24,089
Hagerstown Community College Foundation	11,155	10,317
Harford Community College Foundation	11,077	9,999
Howard Community College Foundation	5,007	10,313
M Club	2,524	2,464
Towson University Foundation	9,550	8,989
UMB Foundation	292,826	268,023
UMCP Foundation	419,110	378,628
University of Baltimore Foundation	3,919	3,691
University System of Maryland	364,027	328,652
Total	$ 1,209,720	$ 1,108,019

Classification of Net Assets

The Foundation classifies its net assets into the two categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions

Net assets without donor restrictions are not subject to donor-imposed restrictions. These net assets generally result from providing services and receiving contributions without donor restrictions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

These net assets also include board designated net assets. The Foundation's Board of Directors has set aside amounts received from various donors as designated fund assets and has implemented an investment policy. These amounts are not subject to donor restrictions.

Net assets with donor restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors. These 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. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes.

When a donor restriction expires as a result of a stipulated time restriction ending or purpose restriction being accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.

Contributions and Grants

The Foundation reports gifts of cash and other assets as restricted support held in separate accounts if they are received with donor stipulations that limit the use of the donated assets. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as support without donor restrictions.

The Foundation reports gifts of land, buildings, and equipment as support without donor restrictions 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 donor restricted support.

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

Split-Interest Agreements

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

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

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

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to the beneficiary under the terms of the agreements. The estimated annuity liabilities expected terms are based on the Internal Revenue Service (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 the Internal Revenue Code (IRC) Section 7520 and range from 0.3% to 10.6%.

Investment Return

The Foundation's net investment return is reported in the consolidated statements of activities and changes in net assets and consists of interest and dividend income, net realized and unrealized gains and losses, less external and direct internal investment expenses.

Functional Allocation of Expenses

The Foundation expends certain funds considered as program related, general and administrative, or fundraising in nature. Program related expenses are in support of a USM institution's or department or program activity. General and administrative expenses are for a USM institution's or the Foundation's business operations. Fundraising expenses support a USM institution's or the Foundation's efforts in raising contribution and grant revenue. See Note 15 for the schedule of functional expenses and allocation methodology.

Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include 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.

Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the years ended June 30, 2019 and 2018, therefore, no provision for income taxes has been made.

Income taxes are accounted for under the asset and liability method in accordance U.S. GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For the years ended June 30, 2019 and 2018, the USMF Corporation generated an immaterial amount of taxable income and a corresponding tax liability was incurred. Income tax expenses for the years ended June 30, 2019 and 2018 were immaterial. The USMF Corporation's liability was considered immaterial and therefore was not recorded in the consolidated financial statements.

Authoritative guidance on accounting for uncertainty in income taxes 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, and also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2019 and 2018 for uncertain tax positions. The Foundation and the USMF Corporation are no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2016.

Reclassifications

Certain amounts presented in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted the ASU and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented except the Foundation has opted to present the liquidity and availability information for 2019 only as permitted under the ASU in the year of adoption. There was no effect on the changes in net assets reported at June 30, 2018.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Foundation until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. The update affects the accounting for equity investments and financial liabilities, and the presentation and disclosure requirements for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied on a retrospective transition method to each period presented. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Foundation's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The ASU changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. The ASU is effective for fiscal years beginning after December 15, 2020. Early adoption may be selected for fiscal years beginning after December 15, 2018. An entity must apply the amendments in the ASU through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08*, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. The ASU is effective for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. The ASU is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The ASU aligns the definition of collections in the FASB Accounting Standards Codification (ASC) Master Glossary with the terms in the American Alliance of Museums' Code of Ethics for Museums. The ASU applies to all entities, including business entities, that maintain collections, but primarily affects not-for-profit entities such as museums, historic sites, art galleries, etc. The ASU also requires certain incremental disclosures. The ASU is effective for all entities for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

3. Fair Value Measurements

The FASB ASC 820, *Fair Value Measurement* (ASC 820), defines fair value, requires disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the inputs to the valuations of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following three-level hierarchy classifies the inputs used to determine fair value:

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 include listed equities and listed mutual funds.

Level 2 – Pricing inputs include 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. Investments which are generally included in this category include less liquid and restricted equity securities and fixed income securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in private equity and investment funds as well as offshore hedge funds.

An investment's level within 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 within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

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

The Foundation reports certain investments using the net asset value (NAV) per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. These investment funds are held as units or interest in institutional funds or limited partnerships, which are stated at NAV or its equivalent. The Foundation uses the NAV as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. The Foundation has not categorized these investments in levels within the fair value hierarchy table.

The following tables present the financial investments held by funds in which USMF invests. The following investments are carried at fair value as of June 30, 2019 and 2018, and are presented by the fair value hierarchy defined above (in thousands):

	June 30, 2019				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Fair Value
Money-market funds and short-term investments[1]	$ 59,438	$ -	$ -	$ -	$ 59,438
Equities and mutual funds[2]	480,652	42,740	-	-	523,392
Absolute return[3]	-	-	111,853	38,303	150,156
Long/short equity hedge funds[4]	-	-	92,466	163,326	255,792
Private capital[5]	-	-	499,298	79,075	578,373
Total investments	$ 540,090	$ 42,740	$ 703,617	$ 280,704	$1,567,151

* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position.

	June 30, 2018				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Fair Value
Money-market funds and short-term investments[(1)]	$ 123,600	$ -	$ -	$ -	$ 123,600
Equities and mutual funds[(2)]	393,981	31,247	-	-	425,228
Absolute return[(3)]	-	-	130,851	57,051	187,902
Long/short equity hedge funds[(4)]	-	-	60,247	166,986	227,233
Private capital[(5)]	-	-	422,967	66,654	489,621
Total investments	$ 517,581	$ 31,247	$ 614,065	$ 290,691	$1,453,584

* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position.

There were no transfers of assets between Levels 1, 2 or 3 classifications for the years ended June 30, 2019 and 2018.

(1) The Foundation invests in money-market funds and short-term investments, including amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. The Foundation invests in money-market and short-term investments to maintain liquidity for spending needs and unfunded commitment liabilities. 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. USMF has classified these investments as Level 1. Valuation is based on quoted market prices.

(2) The Foundation invests directly in common stock, preferred stock and mutual funds. In general, equity securities and mutual funds 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. The Foundation invests in equity securities to gain exposure to the overall direction of global equity markets. The underlying securities within the account have quoted prices available in active markets and have no redemption restrictions and therefore, USMF has classified these investments as Level 1. Some other funds that are not actively traded and have some redemption restrictions have been classified as Level 2.

(3) Absolute return investments track 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. The fair value of these investments has been estimated either by using NAV per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. The notice period for redemption of investments ranges from one month to six months. There are no outstanding unfunded commitments to this asset category. USMF has classified the investments' fair values by ownership percentage of the fund's net assets as Level 3.

(4) 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 offshore investment vehicles. Early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, the Foundation does not have the ability and, therefore, has classified investments in those vehicles, excluding investments valued by NAV, as Level 3. The fair value of these investments has been estimated either by using the net asset value per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding unfunded commitments to this asset category.

(5) 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. Investments in private capital are presented at fair value as approved by the Foundation's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or investment manager generally values their investments at fair value. The fair value of these investments has been estimated either by using the NAV per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by the Foundation's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the Foundation's proportionate share of the capital in the investment company/fund. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. As of June 30, 2019, unfunded commitments within the private capital category equal approximately $363 million.

The fair values of Level 3 investments have been estimated by management based on all available data, including information provided by third-party pricing vendors, fund managers, custodians and general partners. The valuations of alternative investments are classified as Level 3 due to the use of unobservable inputs in their year-end fair value measurement. Unobservable inputs include 1) use of NAV or the ownership percentage of the fund's net assets for alternative investment vehicles that are private, 2) capital account activity during the gap period of the most recent investor statement and the Foundation's year-end, and 3) known performance adjustments for alternative investments that hold securities with observable fair valuations. There were no changes in valuation methodologies as of June 30, 2019 and 2018.

Alternative investments are recorded at fair value based on NAV as a practical expedient provided by the respective general partner or fund administrator of the individual alternative investment funds or the ownership percentage of the fund's net assets. Due to the limited availability of valuation data as of the Foundation's year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. Management adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, and redemptions or returns of capital during the gap period. Net capital activity during the gap periods increased management's estimates $6.7M and $7.3M for years ended June 30, 2019 and 2018, respectively. Management will also adjust for known performance adjustments for alternative investments that hold publicly traded securities. Performance adjustments ranged from 0.12% to 0.74% for those investments on a one-month lag. No performance adjustments are made to investments on a quarter lag given the unobservability of investment performance at the time of report issuance.

The Foundation believes the carrying value of alternative investments in the consolidated statements of financial position is a reasonable estimate of its ownership interest in the alternative investment funds. As part of the Foundation's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets. Management performs a retroactive review of its fair value estimates by comparing to actual year-end statements received subsequent to year-end.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. The Foundation's alternative investments are held with sophisticated investment managers who received audited financial statements during the year that aid in management's ability to approximate fair value.

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

		Significant Unobservable Inputs (Level 3)
Fair value recorded at June 30, 2017	$	557,287
Realized and unrealized gain, net		40,529
Purchase of portfolio investments		128,009
Proceeds from sale or distribution of investments		(111,760)
Fair value recorded at June 30, 2018		**614,065**
Realized and unrealized gain, net		**17,309**
Purchase of portfolio investments		**158,478**
Proceeds from sale or distribution of investments		**(86,235)**
Fair value recorded at June 30, 2019	**$**	**703,617**

Realized and unrealized gains and losses recorded for Level 3 investments are included in investment return, net in the consolidated statements of activities and changes in net assets. Total change in unrealized gains for Level 3 investments were $1.4 million and $3.4 million for the years ended June 30, 2019 and 2018, respectively.

Fair Value and Cost of Investments

The fair value and cost of investments held by funds in which USMF invests at June 30 were as follows (in thousands):

	2019		2018	
	Fair Value	**Cost**	Fair Value	Cost
Money-market funds and short-term investments	**$ 59,438**	**$ 59,438**	$ 123,600	$ 123,600
Equities and mutual funds	**523,392**	**489,709**	425,228	394,418
Absolute return	**150,156**	**56,970**	187,902	88,756
Long/short equity hedge funds	**255,792**	**155,155**	227,233	140,247
Private capital	**578,373**	**600,347**	489,621	522,059
	$ 1,567,151	**$ 1,361,619**	$ 1,453,584	$ 1,269,080

Of the fair value of $1.6 and $1.5 billion at June 30, 2019 and 2018, respectively, $1.4 and $1.3 billion, respectively, is invested in the endowment pool and $154.1 million and $148.5 million, respectively, is invested in the operating portfolio. There are $0.3 million in investments not invested with the pools at both June 30, 2019 and 2018.

The Foundation committed $1.268 and $1.174 billion to private capital as of June 30, 2019 and 2018, respectively, of which $905 and $778 million has been called as of June 30, 2019 and 2018, respectively. These commitments are to be funded through transfers from other Level 3 investments and new cash.

4. Concentration of Credit Risk

The Foundation maintains cash in bank accounts in amounts that may exceed Federally insured limits at times. The Foundation has not experienced any losses in these accounts in the past and believes that it is not exposed to significant credit risks because the accounts are deposited with major financial institutions.

The Foundation believes that it has limited credit risk associated with accounts receivable and contributions receivable due to the size of the amount owed and its donor base.

5. Contributions Receivable

As of June 30, 2019 and 2018, the Foundation's contributors had unconditionally promised to give approximately $10.8 million and $13.5 million, respectively.

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

	2019	2018
Contribution receivable	**$ 10,823**	$ 13,546
Less: unamortized discount	**(978)**	(1,124)
Net contributions receivable	**$ 9,845**	$ 12,422

Amounts due in:

	2019	2018
Within one year	**$ 330**	$ 1,549
One to five years	**10,493**	11,997
Total	**$ 10,823**	$ 13,546

The discount rates used to calculate the present value component are as follows:

	1-5 Years
2019	**6.50%**
2018	6.00%

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately $0.8 million at both June 30, 2019 and 2018. The difference between the fair value of contributions receivable and the carrying value is deemed to be immaterial for financial statement purposes.

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 both June 30, 2019 and 2018 and these amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give. In addition, the Foundation is owner and beneficiary of policies with face amounts of $635,000 (in dollars) and $758,000 (in dollars) and cash surrender values of approximately $280,000 (in dollars) and $289,000 (in dollars) at June 30, 2019 and 2018, respectively, and are included in other assets in the consolidated statements of financial position.

Bequests and Intentions (Unaudited)

Various contributors have informed the Foundation of their intentions to give approximately $15.8 million at June 30, 2019 and 2018. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended. These amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give.

7. Endowments

The Foundation's endowment consists of approximately 1,534 individual accounts 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 Directors 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 donor restricted net assets as (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 the accumulation is added to the fund. 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 Foundation 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 Foundation
7. The investment policies of the Foundation

The Foundation's endowment funds consist of the following as of June 30, 2019 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	**$ 12,036**	**$ -**	**$ 12,036**
Funds treated as endowment funds	**11,409**	**-**	**11,409**
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	**-**	**175,524**	**175,524**
Accumulated investment gains	**-**	**83,403**	**83,403**
	$ 23,445	**$ 258,927**	**$ 282,372**

The Foundation's endowment funds consist of the following as of June 30, 2018 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	$ 6,990	$ -	$ 6,990
Funds treated as endowment funds	14,178	-	14,178
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	173,897	173,897
Accumulated investment gains	-	74,549	74,549
	$ 21,168	$ 248,446	$ 269,614

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

2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	**$ 21,168**	**$ 248,446**	**$ 269,614**
Investment return	**2,573**	**17,230**	**19,803**
Contributions	**357**	**4,591**	**4,948**
Courses and conferences	**-**	**2**	**2**
Appropriation for spendable	**-**	**(8,376)**	**(8,376)**
Appropriation of endowment assets for expenditure	**(46)**	**(3,468)**	**(3,514)**
Others	**(577)**	**577**	**-**
Transfers to System affiliated Foundations	**(30)**	**(75)**	**(105)**
Endowment net assets, end of year	**$ 23,445**	**$ 258,927**	**$ 282,372**

2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	$ 20,385	$ 224,995	$ 245,380
Investment return	2,273	20,931	23,204
Contributions	184	11,198	11,382
Courses and conferences	-	2	2
Appropriation for spendable	-	(6,960)	(6,960)
Appropriation of endowment assets for expenditure	(1,327)	(1,714)	(3,041)
Transfers to System affiliated Foundations	(347)	(6)	(353)
Endowment net assets, end of year	$ 21,168	$ 248,446	$ 269,614

Underwater Endowment Funds

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. This deficit can result from unfavorable market fluctuations that occurred after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. The Foundation allows for spending on underwater funds. Future market gains will be used to restore this deficiency. There were no deficits of this nature that are reported in net assets with donor restrictions as of both June 30, 2019 and 2018.

Return and Risk Return Objectives

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 its various institutions. The Investment Committee governs according to fundamental investment principles, approved by the Investment Committee and USMF Board of Directors, with the objective of achieving superior risk-adjusted returns in order to grow the corpus of the capital base and provide capital for spending distributions for constituents. Specifically, the goal of the endowment is to achieve returns in excess of inflation plus spending plus fees. Within the context of risk-taking, specific risk metrics are outlined for staff and the Investment Committee to reassess the portfolio's positioning if these levels are breached.

Strategies Employed for Achieving Objectives

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (liquid investments), private risk assets (illiquid portion of the portfolio), intermediate assets (private assets with shorter, finite illiquidity periods), and safe assets (cash and U.S. Government securities). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overlay class (liquid, exchange traded instruments that aim to hedge against undesired risks).

The asset allocation target ranges inclusive of these securities as of June 30, 2019 and 2018 is as follows:

Asset Class	Policy Target	Minimum	Maximum
Safe Assets	2%	0%	25%
Intermediate Assets	15%	15%	25%
Portfolio Overlay	0%	0%	5%
Public Risk Assets	48%	45%	75%
Private Risk Assets	35%	20%	40%

The asset allocation target ranges inclusive of these securities as of June 30, 2019 and 2018 is as follows:

The endowment portfolio is constructed based on the following principles:

1. **Allocation**: The overall goal of the Investment Committee in establishing the asset class ranges is to create balance across the portfolio between sources of return, liquidity timeliness, and types of risk. The purpose and definition of each asset class and sub-class is as follows:

    a) **Safe Assets** are defined as investments with little-to-no principal risk. These assets are U.S. Government securities and cash. This portion of the portfolio is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress.

b) **Intermediate Assets** represent private, finite life investment vehicles whose term is generally longer than public risk assets, but shorter than private risk assets. Since there is modest illiquidity within these investments, they seek to earn returns above market lending rates, but not as high as private risk assets. Many strategies within this asset class have a credit or contractual yield orientation, with lower correlations to public equity markets. These include strategies such as direct lending, distressed lending/sales, and niche credit opportunities. In many cases, collateral is attached to these investments and/or they seek a higher priority of payments within a stressed or distressed environment. They offer idiosyncratic return/risk profiles that are generally more predictable and consistent; thereby aiming to reduce overall portfolio risk in tandem with earning attractive returns.

c) **Portfolio Overlay** is another line of defense for capital preservation. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. This is achieved through a number of liquid exchange traded instruments that aim to hedge against undesired risks. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as needed, opportunistic basis.

d) **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. Within this section of the portfolio, a number of uncorrelated objectives across equity and credit managers and instruments are sought.

   Orientations vary as they seek growth, value, momentum, inflation protection, and/or catalyst driven events. Some of these investments will track closely to market indices, with a goal to earn or exceed the benchmark return, but with less risk than the benchmark. Other investments will not closely follow a market benchmark, as they seek to offer broad diversification for the aggregate portfolio, while still earning high risk adjusted returns, while muting general equity market volatility when possible.

e) **Private Risk Assets** are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the endowment's capital, the portfolio can hold illiquid investments that may take years for profit realization. While the use of capital is sacrificed during this timeframe, these investments are held to higher hurdles of performance, as they are expected to earn a significant return premium over public market equivalent investments. These investments seek to invest in the debt and/or equity of businesses as well as physical assets. A wide variety of strategies are utilized across varied geographies, sectors, and liquidity profiles, so as to achieve market and vintage year diversification.

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 endowment fund's assets may be invested in one fund and no more than 10% of the endowment fund's assets may be invested in one manager. The Investment 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 allocation 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 Directors has authorized a formulaic approach as an advisory tool to determine the annual spending rate. The approach 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 between 4.5% and 3.5% of the moving average market value for the years ended June 30, 2019 and 2018, respectively. 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).

After considering the formulaic approach and other relevant inputs, an annual spending rate is established. The spending rates for both 2018 and 2019 were 4.0%. The approved spending rate for 2020 is 4.0%.

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 of $10,000. In establishing this policy, the Spending Policy Committee considered the long-term expected return on the endowment and its goal of preserving principal. Accordingly, over the long term, USMF expects the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

The Board approved a blanket carry-over for 2 years of unspent appropriated funds as of June 30. A special request must be made to carry-over unspent appropriated funds from more than two prior years into subsequent fiscal years.

8. Net Assets Activities

Net assets with donor restrictions are restricted for the following purposes (in thousands):

June 30,	**2019**	2018
Subject to expenditures for specified purpose:		
Academic programs	**$ 26,505**	$ 26,444
Student support	**4,218**	4,098
University advancement	**2,520**	3,755
Research	**18,347**	17,653
Faculty support	**173**	354
	51,763	52,304
Endowments:		
Subject to the Foundation’s endowment spending policy:		
Academic programs	**47,969**	48,320
Student support	**150,924**	143,928
University advancement	**2,787**	1,057
Research	**3,463**	3,127
Faculty support	**53,784**	52,014
Total endowments:	**258,927**	248,446
Total net assets with donor restrictions	**$ 310,690**	$ 300,750

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

June 30,		**2019**		2018
Satisfaction of purpose restrictions:				
Academic programs	**$**	**5,038**	$	5,860
Student support		**2,335**		1,255
University advancement		**1,592**		1,098
Research		**4,282**		3,468
Faculty support		**918**		415
Total satisfaction of purpose restrictions		**14,165**		12,096
Restricted-purpose spending rate distributions and appropriations:				
Academic programs		**1,514**		1,156
Student support		**4,933**		4,120
University advancement		**22**		34
Research		**81**		50
Faculty support		**1,826**		1,600
Total restricted-purpose spending rate distributions and appropriations		**8,376**		6,960
Total net assets released from donor restrictions	**$**	**22,541**	$	19,056

The Foundation has board-designated net assets for supporting the academic programs, scholarships, department support, university support, and other programs. Net assets without donor restrictions - Board-designated net assets are designated for the following (in thousands):

June 30,		**2019**		2018
Academic programs	**$**	**1,196**	$	1,089
Scholarships		**2,342**		1,122
Department support		**3,930**		3,552
University support		**3,189**		3,058
Maryland Center for Performing Arts		**1,668**		1,651
Others		**2,934**		2,307
Total Board-designated net assets	**$**	**15,259**	$	12,779

9. Liquidity and Availability

The Foundation manages its investment pool to ensure liquidity is provided to the affiliated institutions to meet their spending needs. The portfolio's allocation to public risk assets provides market exposure and the liquidity needed to support recurring program expenditures as they become due. Liquidity is managed through the construct of the investment policy highlighted in Note 7.

Funds available to meet general expenditures within one year are as follows (in thousands):

		June 30, 2019
Cash and cash equivalents	$	151
Account receivable		45
Accrued interest receivable		467
Contributions receivable		330
Operating investments (Level 1 and 2)		61,400
Total financial assets available within one year		62,393
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Board-designated		(15,259)
Availability of assets within one year	$	47,134

10. Retirement Plans

The Foundation maintains a defined contribution plan for certain personnel provided by TIAA and CREF. The Foundation contributes 7.25% of the employee's compensation to a 401(a) 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 a 403(b) plan. The Foundation established a 457(b) plan for top executives in 2002. Total retirement plan expense for the years ended June 30, 2019 and 2018 was approximately $211,000 (in dollars) and $193,000 (in dollars), respectively.

11. 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 are overall immaterial to the consolidated financial statements.

12. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately $3.0 million and $3.3 million as of June 30, 2019 and 2018, respectively.

13. Related Party Transactions

Members of the Board of Directors of the Foundation are affiliated with organizations which manage or invest a portion of the Foundation's assets. Members of the Board of Directors do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those directors are associated. Approximately $1.8 million or 0.1% of the Foundation's total assets of $1.6 billion were invested in entities that have associations with members of the Foundation's Board of Directors as of June 30, 2018. The investment is no longer affiliated with a voting member of the Board as of June 30, 2019.

Further, members of the Board of Directors of the Foundation may also sit on the Boards of affiliated organizations for which the Foundation manages assets.

14. 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, 2019 and 2018, this corporation held $7.5 million and $10.6 million in net assets, respectively, and has a net operating income/(loss) of $1.7 million and $(0.4) million for the years ended June 30, 2019 and 2018, respectively, which are reflected in the consolidated financial statements.

15. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The personnel expenses are allocated on the basis of estimates of time and effort. The following are functional expenses for the years ended June 30, 2019 and 2018:

- Wye Herd - This program is used to support all activities related to the Wye Herd.
- Academic – This program is used to provide supplemental educational experiences for students studying in the different departments. This program covers costs related to on and off campus learning opportunities.
- Scholarships – This program assists students who are studying in all fields with tuition, books and room and board expenses.
- Chair program – This program assists with various departments' ability to fund the Chair of the department through salary and other related expenses incurred by the individual.

- Research – This program is designed to assist departments with costs related to expanding research in many academic fields. Costs such as lab equipment, materials and computer programs are included in this area.

- Department Support – This program aids with the various costs associated with maintaining and improving the different departments across the campuses. Costs related to this program are related to the day to day operations of the departments.

- Other Programs – These assist various programs to promote the interest of the individual campuses, to support activities and facilities of the buildings, to award students, to fund the purchases of equipment needed for the different campus field of studies, and to support the athletic programs.

- Management and General – These expenses relate to the day to day operation of the administrative, accounting and legal offices for the organizations.

- Fundraising – These expenses are associated with all aspects of the advancement office in relation to fundraising initiatives and activities.

Year ended June30, 2019 (in thousands)	Program Services										
	Wye Herd	**Academic**	**Scholarships**	**Chair Program**	**Research**	**Department Support**	**Other Programs**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Expenses**
Transfers to USMF	**$ -**	**$ 1,247**	**$ 312**	**$ 1,391**	**$ 1,319**	**$ 2,863**	**$ 2,167**	**$ 9,299**	**$ 140**	**$ 1,570**	**$ 11,009**
Student support	**-**	**348**	**5,692**	**3**	**236**	**171**	**880**	**7,330**	**-**	**-**	**7,330**
Personnel	**75**	**1**	**-**	**-**	**186**	**221**	**84**	**567**	**2,039**	**44**	**2,650**
Outside services	**145**	**79**	**169**	**41**	**225**	**94**	**945**	**1,698**	**631**	**838**	**3,167**
Research and special projects	**-**	**395**	**-**	**-**	**1,721**	**-**	**452**	**2,568**	**-**	**-**	**2,568**
Public relations and promotions	**-**	**286**	**82**	**5**	**24**	**343**	**545**	**1,285**	**667**	**128**	**2,080**
Educational programs	**27**	**196**	**336**	**12**	**48**	**310**	**161**	**1,090**	**18**	**-**	**1,108**
Equipment and software rental/ maintenance	**72**	**21**	**3**	**12**	**100**	**155**	**192**	**555**	**189**	**7**	**751**
Travel	**-**	**82**	**23**	**46**	**145**	**46**	**212**	**554**	**82**	**3**	**639**
Other expenses	**55**	**81**	**2**	**-**	**38**	**34**	**583**	**793**	**644**	**311**	**1,748**
Total expenses	**$ 374**	**$ 2,736**	**$ 6,619**	**$ 1,510**	**$ 4,042**	**$ 4,237**	**$ 6,221**	**$ 25,739**	**$ 4,410**	**$ 2,901**	**$ 33,050**

Year ended June30, 2018 (in thousands)	Program Services										
	Wye Herd	**Academic**	**Scholarships**	**Chair Program**	**Research**	**Department Support**	**Other Programs**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Expenses**
Transfers to USMF	$ -	$ 1,758	$ 268	$ 907	$ 1,405	$ 2,231	$ 2,129	$ 8,698	$ 244	$ -	$ 8,942
Student support	-	329	4,573	-	4	81	718	5,705	-	-	5,705
Personnel	66	89	-	-	209	204	33	601	1,838	92	2,531
Outside services	207	127	64	13	145	36	1,074	1,666	363	547	2,576
Research and special projects	-	24	-	-	1,737	(4)	98	1,855	-	-	1,855
Public relations and promotions	-	224	7	9	35	261	607	1,143	445	201	1,789
Educational programs	19	176	11	9	104	280	180	779	3	-	782
Equipment and software rental/ maintenance	68	38	8	14	16	29	139	312	153	6	471
Travel	-	84	27	59	129	56	204	559	98	5	662
Other expenses	55	151	4	23	48	107	1,154	1,542	696	1,345	3,583
Total expenses	$ 415	$ 3,000	$ 4,962	$ 1,034	$ 3,832	$ 3,281	$ 6,336	$ 22,860	$ 3,840	$ 2,196	$ 28,896

16. Subsequent Events

Subsequent events have been evaluated by management through September 16, 2019, the date the consolidated financial statements were issued. There were no events noted that required adjustment to or disclosure in these consolidated financial statements.