

**The University of Maryland  
Baltimore Foundation, Inc.**

**Financial Statements  
June 30, 2011 and 2010**

**The University of Maryland Baltimore Foundation, Inc.**

**Index**

**June 30, 2011 and 2010**

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## Report of Independent Auditors

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

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and statements of cash flows present fairly, in all material respects, the financial position of the University of Maryland Baltimore Foundation, Inc. (the "Foundation") at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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.

*PricewaterhouseCoopers LLP*

October 6, 2011

**The University of Maryland Baltimore Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2011 and 2010**

	2011	2010
<b>Assets</b>		
Current assets		
Due from other foundations	\$ 25,136	\$ 23,575
Notes and other receivables	12,800	-
Contributions receivable - current portion	8,632,526	9,228,614
Total current assets	<u>8,670,462</u>	<u>9,252,189</u>
Investments		
Endowment	102,885,936	80,077,971
Operating	52,130,230	48,962,831
Total investments	<u>155,016,166</u>	<u>129,040,802</u>
Other assets		
Contributions receivable - non-current portion	13,822,231	12,424,820
Assets held under split-interest agreements	1,720,948	2,640,137
Other assets	2,325,752	1,897,170
Total other assets	<u>17,868,931</u>	<u>16,962,127</u>
Total assets	<u>\$ 181,555,559</u>	<u>\$ 155,255,118</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,520,097	\$ 3,887,470
Total current liabilities	<u>2,520,097</u>	<u>3,887,470</u>
Other liabilities		
Payable under split-interest agreements	950,508	1,622,161
Total other liabilities	<u>950,508</u>	<u>1,622,161</u>
Total liabilities	<u>3,470,605</u>	<u>5,509,631</u>
Net assets		
Unrestricted	16,475,392	13,584,261
Temporarily restricted	58,568,145	49,255,343
Permanently restricted	103,041,417	86,905,883
Total net assets	<u>178,084,954</u>	<u>149,745,487</u>
Total liabilities and net assets	<u>\$ 181,555,559</u>	<u>\$ 155,255,118</u>

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

**The University of Maryland Baltimore Foundation, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions - transfers from University System of Maryland Foundation	\$ 14,079	\$ 22,242	\$ 1,536,423	\$ 1,572,744
Contributions and grants	8,715,980	6,188,307	14,599,111	29,503,398
Investment income	678,503	1,168,419	-	1,846,922
Other program income	471,379	-	-	471,379
Realized and unrealized gains and losses on investments, net	228,459	14,968,783	-	15,197,242
Net assets released from restriction	13,034,949	(13,034,949)	-	-
Total revenues	<u>23,143,349</u>	<u>9,312,802</u>	<u>16,135,534</u>	<u>48,591,685</u>
<b>Expenses</b>				
Program	18,394,599	-	-	18,394,599
General and administrative	1,385,290	-	-	1,385,290
Fundraising	472,329	-	-	472,329
Total expenses	<u>20,252,218</u>	<u>-</u>	<u>-</u>	<u>20,252,218</u>
Change in net assets	2,891,131	9,312,802	16,135,534	28,339,467
Net assets at beginning of year	<u>13,584,261</u>	<u>49,255,343</u>	<u>86,905,883</u>	<u>149,745,487</u>
Net assets at end of year	<u>\$ 16,475,392</u>	<u>\$ 58,568,145</u>	<u>\$ 103,041,417</u>	<u>\$ 178,084,954</u>

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

**The University of Maryland Baltimore Foundation, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions - transfers from University System of Maryland Foundation	\$ 17,468	\$ 94,434	\$ 593,537	\$ 705,439
Contributions and grants	4,281,518	9,114,614	5,199,305	18,595,437
Investment income	793,446	976,532	-	1,769,978
Other program income	264,776	-	-	264,776
Realized and unrealized gains and losses on investments, net	3,725,341	7,382,065	-	11,107,406
Net assets released from restriction	13,574,232	(13,574,232)	-	-
<b>Total revenues</b>	<b>22,656,781</b>	<b>3,993,413</b>	<b>5,792,842</b>	<b>32,443,036</b>
<b>Expenses</b>				
Program	16,737,160	-	-	16,737,160
General and administrative	1,390,295	-	-	1,390,295
Fundraising	901,324	-	-	901,324
<b>Total expenses</b>	<b>19,028,779</b>	<b>-</b>	<b>-</b>	<b>19,028,779</b>
<b>Change in net assets</b>	<b>3,628,002</b>	<b>3,993,413</b>	<b>5,792,842</b>	<b>13,414,257</b>
Net assets at beginning of year	9,956,259	45,261,930	81,113,041	136,331,230
<b>Net assets at end of year</b>	<b>\$ 13,584,261</b>	<b>\$ 49,255,343</b>	<b>\$ 86,905,883</b>	<b>\$ 149,745,487</b>

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

**The University of Maryland Baltimore Foundation, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	2011	2010
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 28,339,467	\$ 13,414,257
Adjustments to reconcile change in net assets to cash and cash equivalents (used in) provided by operating activities:		
Net realized and unrealized (gains) and losses on investments	(15,197,242)	(11,107,406)
(Increase)/decrease in notes and other receivables	(12,800)	550
Decrease in due from other foundations	(1,561)	(631)
(Increase)/decrease in contributions receivable	(801,323)	3,831,223
Decrease/(increase) in assets held under split-interest agreements	919,189	(58,920)
(Increase)/decrease in other assets	(428,582)	8,106
(Decrease)/increase in accounts payable and accrued expenses	(1,367,373)	1,873,781
Contributions restricted for long-term investment	(13,743,902)	(6,606,412)
Total adjustments	<u>(30,633,594)</u>	<u>(12,059,709)</u>
Net cash and cash equivalents (used in)/provided by operating activities	<u>(2,294,127)</u>	<u>1,354,548</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(44,766,805)	(39,643,948)
Sales of investments	33,988,683	31,040,820
Net cash and cash equivalents used in investing activities	<u>(10,778,122)</u>	<u>(8,603,128)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term investment	13,743,902	6,606,412
Decrease in payable under split-interest agreements	(671,653)	(29,800)
Net cash and cash equivalents provided by financing activities	<u>13,072,249</u>	<u>6,576,612</u>
Net increase in cash and cash equivalents	-	(671,968)
Cash and cash equivalents at beginning of year	-	671,968
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

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

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**1. Nature of Operations**

The University of Maryland Baltimore Foundation, Inc. (the "Foundation" or "UMBF"), an independent Foundation incorporated in 2000, is established to receive, manage, and invest private gifts and/or property for the benefit of the University of Maryland, Baltimore and its related programs and supporting activities.

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

**Basis of Presentation**

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**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 on deposit 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. Cash at June 30, 2011 and 2010 was in a net-liability position, with a cash liability of \$760,266 and \$247,575, respectively, included in accounts payable in the Statements of Financial Position.

**Valuation of Investments**

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

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

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See Note 3 for further details on valuation of investments.

**Contributions of Real and Personal Property**

The Foundation receives various contributions of non-cash items. It is the Foundation's policy to record the assets at the fair market value at the date of the gift and revalue each fiscal year. These assets are held for investment purposes and are not depreciated. They are included in "Other Assets" in the accompanying Statements of Financial Position.

**Expenses**

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of UMBF or its related programs and supporting activities or for the Foundation's business operations and have been classified as such.

**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 receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, and performing administrative functions. Unrestricted net assets include amounts available for use in the general operation of the Foundation as well as amounts not designated for a specific purpose upon receipt.

Temporarily restricted net assets - Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the Foundation 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 is classified as temporarily restricted until appropriated for expenditure.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor restriction.

**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 restriction. 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. 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.

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**Pledges Receivable**

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted support when the funds are pledged. 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. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. 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 and allowance for doubtful accounts.

**Split-Interest Agreements**

The Foundation also receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts and charitable gift annuities. These include agreements for which the Foundation acts as trustee and holds the assets as well as agreements where the Foundation has an interest in the trust but is not the trustee. When the trust's obligations to all beneficiaries expire, the remaining assets 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 the trustee. Where the Foundation is the trustee, the estimated fair value is recognized as an asset, the fair value of the distributions, expected to be paid over the term of the trust, is recorded as a liability and the difference is recorded as contribution revenue. The contribution revenue on new split-interest agreements was \$180,000 and \$125,000 in fiscal years 2011 and 2010, respectively. The change in value of existing agreements recognized was \$194,272 and \$193,194 for fiscal years 2011 and 2010, respectively.

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 beneficiaries under the terms of the agreements. The estimated annual liabilities expected terms are based on IRS actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under IRC Section 75206(a) and ranged from 2.4% to 6.2%.

**Administrative Fees**

The Foundation management designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged as follows:

Investments – operating - The Foundation's operating investment reserve fund was charged 1.2% of the fiscal year 2011 average monthly total operating investment fund balance in support of Foundation operating and fundraising expenses. This reserve fund was also charged 0.8% of the average balance to be used at the discretion of the President of the University of Maryland, Baltimore. The Foundation pays 0.25% of the market value to the University System of Maryland Foundation, Inc. ("USMF") for current use fund investment management services in accordance with the terms of an investment management agreement.

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Investments - endowment - Professional investment fees are deducted by the investment manager prior to the distribution of income. In addition, the Foundation annually assesses each endowment account a fee for endowment operating and administrative expenses at the rate of 2.0% of the market value of assets managed at March 31. The Foundation pays 15.0% of this assessment to USMF for endowment investment management services in accordance with the terms of an investment management agreement. Beginning in this fiscal year, the Foundation also pays an annual investment office fee to USMF of approximately 0.27% of the endowment investment balance charged on a quarterly basis.

**Income Taxes**

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of section 501(c)(3) of the Internal Revenue Code. Since the Foundation had no material unrelated business income for the years ended June 30, 2011 and 2010, no provision for income taxes has been made.

The FASB issued guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2011 and 2010 for uncertain tax positions. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2007.

**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 accounts and contributions receivable. Actual results could differ from those estimates.

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation.

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**3. Fair Value Measurements**

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

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

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

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

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

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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 following tables present the financial investments carried at fair value as of June 30, 2011 and 2010, by the fair valuation hierarchy defined above:

	June 30, 2011			
	Total Fair Value	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Cash equivalents and money market funds <sup>(1)</sup>	\$ 12,869,636	\$ 12,869,636	\$ -	\$ -
Commonfund <sup>(2)</sup>	1,640,523	-	1,640,523	-
Investment in special strategies - USMF <sup>(3)</sup>	140,506,007	\$ 16,816,212	\$ 26,977,172	\$ 96,712,623
Total investments	<u>\$ 155,016,166</u>	<u>\$ 29,685,848</u>	<u>\$ 28,617,695</u>	<u>\$ 96,712,623</u>
Assets held under split interest agreements	\$ 1,720,948	\$ 1,720,948	-	-

	June 30, 2010			
	Total Fair Value	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Cash equivalents and money market funds <sup>(1)</sup>	\$ 7,738,222	\$ 7,738,222	\$ -	\$ -
Commonfund <sup>(2)</sup>	1,305,564	-	1,305,564	-
Investment in special strategies - USMF <sup>(3)</sup>	119,997,016	7,067,701	28,351,490	84,577,825
Total investments	<u>\$ 129,040,802</u>	<u>\$ 14,805,923</u>	<u>\$ 29,657,054</u>	<u>\$ 84,577,825</u>
Assets held under split interest agreements	\$ 2,640,137	\$ 2,640,137	-	-

There were no transfers of assets between Level 1, 2 or 3 classification for the year ended June 30, 2011.

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The following is a description of the Foundation's valuation methodologies for assets measured at fair value.

- 1) Cash equivalents and money market funds 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. The Foundation invests in these assets to maintain liquidity for spending needs.
- 2) The Commonfund Multistrategy Equity Fund invests in a broad spectrum of equity strategies, most of which are traded on a national stock exchange. The Commonfund is however not publicly traded. Fair value is based on the Commonfund's net asset value, which renders the investment as level 2. The Foundation invests in the Commonfund to diversify their equity portfolio and gain exposure to the overall direction of global equity markets. There are not any outstanding unfunded commitments as of June 30, 2011.
- 3) Investments in special strategies are invested by USMF on behalf of UMBF in a unitized portfolio, which utilizes an array of different investment strategies. Value is based on unobservable inputs and relies on underlying general partners and investment managers for pricing information. Redemption from this investment is dependent on redemptions from the underlying investments of the portfolio; therefore, the unitized portfolio's fair value leveling is dependent on the level hierarchy of the underlying investments. The Foundation invests in the unitized portfolio to benefit from economies of scale to gain access to the underlying investment strategies. The investment strategies of the unitized portfolio include the following:

*Level 1 securities represent approximately 11% of the total investment in special strategies - USMF at June 30, 2011, and include the following investment types*

*Managed accounts investing in money-market funds and short-term investments -* These include amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. Money-market and short-term investments are unitized to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The unitized portfolio has not experienced such losses on these funds.

*Investments in equity securities -* Fair value for securities traded on a national securities exchange 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. The unitized portfolio 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, are classified as Level 1 investments.

*Level 2 securities represent approximately 12% of the total investment in special strategies - USMF at June 30, 2011, and include the following investment types:*

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*Managed accounts investing in U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage backed securities* - Fair value is based upon quotes for similar securities, rendering these investments as Level 2. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. The unitized portfolio invests in these assets to protect in the event of sudden interest rate changes as well as to maintain liquidity.

*Level 3 securities represent approximately 77% of the total investment in special strategies - USMF at June 30, 2011, and include the following investment types:*

*Investments in absolute return* - Absolute return consists of investments that involve the purchase and sale of shares in companies that are subject of publically announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption of investments ranges from one month to six months. There are no outstanding unfunded commitments to this asset category.

*Investments in long/short strategies* - 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 value the assets held in the fund at all hierarchy levels. However, the Foundation's subscription agreement locks up its investment for a period of time and does not allow for sale to another. Also, early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, the unitized portfolio does not have the ability and, therefore, has classified investments in those vehicles as Level 3. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding commitments to this asset category.

*Private capital investments* - Private capital investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in non-marketable securities of new companies or companies considered to be in the early stages of growth. Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. Investments in private equity investment companies and funds are presented at fair value as approved by the unitized portfolio's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or manager generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third part transactions in the private market or the fair value deemed appropriate by the unitized portfolio'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 unitized portfolio's proportionate share of

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the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated.

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:

<b>Fair value recorded at June 30, 2009</b>	<b>\$ 67,783,022</b>
Unrealized gains	11,624,244
Realized gains	4,164,777
Net purchases, sales, settlements	<u>1,005,782</u>
<b>Fair value recorded at June 30, 2010</b>	<b>84,577,825</b>
Unrealized gains	20,752,295
Realized gains	2,782,797
Net purchases, sales, settlements	<u>(11,400,294)</u>
<b>Fair value recorded at June 30, 2011</b>	<b><u>\$ 96,712,623</u></b>

Realized and unrealized gains/(losses) are included in the corresponding line in the Statement of Activities and Changes in Net Assets.

**4. Management of Investments**

The Foundation has signed an investment management agreement with USMF, whereby funds held by the Foundation will be invested according to the policies set and approved by USMF's Board of Trustees. USMF is the custodian of the Foundation's investment assets under this agreement. This agreement also allows the Foundation to invest its assets in USMF investment pools. The Foundation pays USMF an investment fee of 0.3% on the net market value of endowments as of June 30th of the previous fiscal year (included in the 2.0% administrative assessment) for these services, as well as 0.25% of the market value of the current use funds in accordance with the terms of the investment management agreement.

USMF serves as custodian and investment manager of approximately 90% of the Foundation's investments. The remaining investments are in three separately managed investment pools. Approximately \$14.5 million, or 10%, is directly invested by management in three investment pools – the Law School Bond Fund, the BlackRock Liquidity Tempfund, and the Commonfund Multi-Strategy Equity Fund. The assets in these funds consisted of donations and earnings at June 30, 2011 and 2010. The other investments of trusts and annuities are managed and directly invested by a third party custodian.

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**5. Concentration of Credit Risk**

Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of cash and cash equivalents and investments. The Foundation performs periodic evaluations of the financial institutions with which they invest in for relative credit standing. The total deposits at the institutions may exceed the amount guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized.

**6. Contributions Receivable**

Promised contributions are due as follows at June 30:

	2011	2010
Due within one year	\$ 9,229,099	\$ 9,814,988
Due within one to five years	15,257,254	13,676,552
More than five years	567,331	869,908
Subtotal	<u>25,053,684</u>	<u>24,361,448</u>
Less: allowance for doubtful accounts	(1,072,214)	(972,479)
Less: present value component	<u>(1,526,713)</u>	<u>(1,735,535)</u>
Total contributions receivable	<u>\$ 22,454,757</u>	<u>\$ 21,653,434</u>

The discount rate used to calculate the present value component at June 30, 2011 and 2010 was 2.46% and 3.50%, respectively, for those contributions due in zero to five years and 3.28% and 4.00%, respectively, for contributions due in more than five years.

**7. Conditional Promises to Give and Intentions (Unaudited)**

Contributors have informed the Foundation of intentions to give approximately \$57 million and \$32 million at June 30, 2011 and 2010, respectively. These intentions relate to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion or to pledges with donor imposed conditions. Therefore, they are appropriately not recorded in the accompanying financial statements.

**8. Endowments**

The Foundation's endowment consists of approximately \$121.1 million individual donor restricted endowment funds and \$2.5 million board-designated endowment funds, at June 30, 2011, for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables, split interest agreements, and other net assets. The endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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The Board of Trustees of the Foundation has interpreted the "Maryland Uniform Prudent Management of Institutional Funds Act" (MUPMIFA) as requiring the preservation 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 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 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 of the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The donor restriction and mission of the Foundation
- (3) General economic conditions
- (4) The possible effect of inflation and 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

Endowment net asset composition by type of fund as of June 30 was:

<b>2011</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (184,299)	\$ 18,278,949	\$ 103,041,417	\$ 121,136,067
Board-designated endowment funds	-	2,547,989	-	\$ 2,547,989
Total endowment funds	<u>\$ (184,299)</u>	<u>\$ 20,826,938</u>	<u>\$ 103,041,417</u>	<u>\$ 123,684,056</u>
<b>2010</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (2,683,297)	\$ 9,254,874	\$ 86,905,883	\$ 93,477,460
Board-designated endowment funds	-	2,068,125	-	2,068,125
Total endowment funds	<u>\$ (2,683,297)</u>	<u>\$ 11,322,999</u>	<u>\$ 86,905,883</u>	<u>\$ 95,545,585</u>

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

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (2,683,298)	\$ 11,322,999	\$ 86,905,883	\$ 95,545,584
Investment return				
Investment income	-	1,082,362	-	1,082,362
Net gains/(losses) (realized and unrealized)	-	13,510,518	-	13,510,518
Subtotal	(2,683,298)	25,915,879	86,905,883	110,138,464
Gifts	-	32,242	15,970,731	16,002,973
Appropriation of endowment assets for expenditure	-	(1,497,576)	-	(1,497,576)
Transfer balance of net deficit to unrestricted	2,498,999	(3,623,607)	164,803	(959,805)
Endowment net assets, end of year	<u>\$ (184,299)</u>	<u>\$ 20,826,938</u>	<u>\$ 103,041,417</u>	<u>\$ 123,684,056</u>
2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (6,755,423)	\$ 7,654,709	\$ 81,113,041	\$ 82,012,327
Investment return				
Investment income	-	976,687	-	976,687
Net gains/(losses) (realized and unrealized)	-	8,564,988	-	8,564,988
Subtotal	(6,755,423)	17,196,384	81,113,041	91,554,002
Gifts		395,434	5,539,922	5,935,356
Appropriation of endowment assets for expenditure	-	(1,337,407)	-	(1,337,407)
Transfer balance of net deficit to unrestricted	4,072,125	(4,931,412)	252,920	(606,367)
Endowment net assets, end of year	<u>\$ (2,683,298)</u>	<u>\$ 11,322,999</u>	<u>\$ 86,905,883</u>	<u>\$ 95,545,584</u>

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**Permanently Restricted Net Assets - Endowment Funds**

The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by MUPMIFA as of June 30 was:

	2011	2010
Program support	\$ 30,844,558	\$ 22,671,239
Student support	24,633,862	23,398,225
Faculty support	46,163,151	39,785,152
Research	1,294,731	946,152
Capital projects	105,115	105,115
Total	<u>\$ 103,041,417</u>	<u>\$ 86,905,883</u>

**Temporarily Restricted Net Assets - Endowment Funds**

The portion of temporarily restricted net assets related to the endowment funds as of June 30 was:

	2011	2010
Program support	\$ 7,097,053	\$ 4,427,482
Student support	4,549,679	1,893,615
Faculty support	8,506,543	4,531,244
Research	635,151	451,306
Capital projects	38,512	19,352
Total	<u>\$ 20,826,938</u>	<u>\$ 11,322,999</u>

**Endowment Funds 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 Maryland Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") requires the Foundation to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. In accordance with Generally Accepted Accounting Principles, deficits of this nature reported in unrestricted net assets were \$184,299 and \$2,683,298 at June 30, 2011 and 2010, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

**Return Objectives and Risk Parameters**

The Foundation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. The return objectives of the Foundation are aligned with those of USMF, the custodian.

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USMF has adopted investment and spending policies for the Endowment that seeks 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, of which the Foundation is represented, 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's Trust Universe Comparison Services (TUCS).

**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation, through its own-managed funds and USMF managed funds, targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints. The asset allocation target ranges inclusive of these securities is as follows:

<u>Categories</u>	<u>Ranges</u>
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 Investment Committee understands that a high commitment to equities may result in periods of diminished purchasing power and higher short-term volatility. All hedged equities will be considered equities. The Real Assets portfolio is designed to maintain value in the endowment in periods of prolonged inflation. The primary purpose of the fixed income portfolio is to help maintain spending distributions from the endowment during a period of prolonged economic contraction, without having to sell equities or other assets at depressed prices to do so.
- 2) Diversification: By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The 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.

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

The Board of Trustees of the Foundation determines the method to be used to appropriate endowment funds for expenditure. The Foundation has a spending rate rule for its endowment funds in order to preserve purchasing power of the assets, to protect against erosion of nominal principal, and to promote stability and predictability of annual budgeting. The spending rate rule determines the amount to be distributed for current spending with the provision that any amounts remaining after the distributions are reinvested into the endowment fund. The Board of Trustees has authorized a spendable income policy which is based on a formula. The spending rate is calculated using the following method: (a) computing the December 31 average per unit market value using the previous twenty quarters, multiplied by 5.0%, then by the inverse of the unit value weighted at 30%, (b) calculating an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index weighted at 70%, and (c) adding the weighted percentages from (a) and (b) subject to restrictions by donor or by law. Once calculated, the rate should be no more than 5% and no less than 4% of the moving average market value. The spending rate is applied to the market value at December 31 to determine spendable income. The computed rate was 5.00% for fiscal year 2011 and 4.73% for fiscal year 2010.

The endowment spending policy is reviewed annually. In establishing this policy the Board of Trustees expect the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

**9. Restricted Net Asset Activity**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30:

	2011	2010
Program support	\$ 26,443,026	\$ 22,935,523
Student support	7,076,118	4,135,461
Faculty support	11,892,114	8,512,073
Research	8,656,148	8,333,179
Capital projects	4,500,739	5,339,108
Total	<u>\$ 58,568,145</u>	<u>\$ 49,255,344</u>

**Net Assets Released from Restrictions**

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by the occurrence of other events as specified by donors. Such net assets were released as follows during the year ended June 30:

	2011	2010
Program support	\$ 6,612,593	\$ 5,992,574
Student support	630,309	893,777
Faculty support	1,063,488	1,265,330
Research	3,336,014	3,897,908
Capital projects	1,392,545	1,524,643
Total	<u>\$ 13,034,949</u>	<u>\$ 13,574,232</u>

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**10. Transfers from USMF**

Prior to the establishment of the Foundation, The University System of Maryland Foundation, Inc. (USMF) held funds that were contributed for the benefit of the University of Maryland, Baltimore. USMF is a separately incorporated, independent foundation that manages funds received for the benefit of the University System of Maryland. During fiscal year 1999, the Maryland State Legislature passed legislation allowing each University System of Maryland institution to establish its own separate, affiliated foundation. In July 1999, the Foundation was incorporated and on July 10, 2000, \$39,169,017 in operating funds was transferred from USMF to the Foundation. During the fiscal years ended June 30, 2011 and 2010, endowment funds totaling \$1,558,665 and \$687,971 were transferred from USMF to the Foundation pursuant to donor approvals.

The Foundation has signed an investment management agreement whereby funds of the Foundation will be invested by USMF, on behalf of the Foundation, according to the policies set by USMF's Investment Committee. USMF is the custodian of the Foundation investment assets under this agreement.

Certain donors that have contributed to the Foundation and have pledges currently outstanding with USMF have been contacted to request that their donated funds and pledges be transferred to the Foundation. Approximately \$14.1 million of the USMF's endowment assets and \$1.6 million of operating assets are designated for the benefit of UMB.

**11. Charitable Gift Annuity Requirements**

As required by the various State regulations, the Foundation has internally reserves cash and investments associated with gift annuity liabilities of \$627,453 and \$1,312,002 as of June 30, 2011 and 2010, respectively.

**12. Related Party Transactions**

Foundation personnel are employees of the University System of Maryland ("the University"). The University administers all payroll and fringe benefit costs. The Foundation reimburses the University for these costs on an annual basis, estimating the salary costs of individuals devoting effort to the Foundation. The amount reimbursed by the Foundation to the University was \$828,698 and \$861,966 for the years ended June 30, 2011 and 2010, respectively.

**13. Commitments and Contingent Liabilities**

During the course of its operations, the Foundation may be exposed to various forms of litigation, claims and assessments. As of June 30, 2011, management was not aware of any such matters that could have a material effect on the Foundation's financial position, change in net assets, or cash flows.

**14. Subsequent Events**

Subsequent events have been evaluated by management through October 6, 2011, the date the financial statements were available to be issued.