

**The University of Maryland
Baltimore Foundation, Inc.**
Financial Statements
June 30, 2010 and 2009

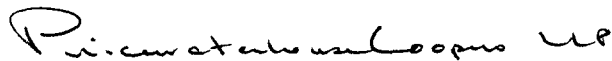
The University of Maryland Baltimore Foundation, Inc.
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June 30, 2010 and 2009

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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, 2010 and 2009, 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.



October 27, 2010

The University of Maryland Baltimore Foundation, Inc.
Statements of Financial Position
June 30, 2010 and 2009

| | 2010 | 2009 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ - | \$ 671,968 |
| Due from other foundations | 23,575 | 22,944 |
| Notes and other receivables | - | 550 |
| Contributions receivable - current portion | 9,228,614 | 7,974,996 |
| Total current assets | <u>9,252,189</u> | <u>8,670,458</u> |
| Investments | | |
| Endowment | 80,077,971 | 65,743,232 |
| Operating | 48,962,831 | 43,587,036 |
| Total investments | <u>129,040,802</u> | <u>109,330,268</u> |
| Other assets | | |
| Contributions receivable - non-current portion | 12,424,820 | 17,509,661 |
| Assets held under split-interest agreements | 2,640,137 | 2,581,217 |
| Other assets | 1,897,170 | 1,905,276 |
| Total other assets | <u>16,962,127</u> | <u>21,996,154</u> |
| Total assets | <u>\$ 155,255,118</u> | <u>\$ 139,996,880</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Cash liability | \$ 247,575 | \$ - |
| Accounts payable and accrued expenses | 3,639,895 | 2,013,689 |
| Total current liabilities | <u>3,887,470</u> | <u>2,013,689</u> |
| Other liabilities | | |
| Payable under split-interest agreements | 1,622,161 | 1,651,961 |
| Total other liabilities | <u>1,622,161</u> | <u>1,651,961</u> |
| Total liabilities | <u>5,509,631</u> | <u>3,665,650</u> |
| Net assets | | |
| Unrestricted | 13,584,261 | 9,956,259 |
| Temporarily restricted | 49,255,343 | 45,261,930 |
| Permanently restricted | 86,905,883 | 81,113,041 |
| Total net assets | <u>149,745,487</u> | <u>136,331,230</u> |
| Total liabilities and net assets | <u>\$ 155,255,118</u> | <u>\$ 139,996,880</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 |
|---|----------------------|---------------------------|---------------------------|-----------------------|
| Revenues | | | | |
| 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 | 3,725,341 | 7,382,065 | - | 11,107,406 |
| Net assets released from restriction | 13,574,232 | (13,574,232) | - | - |
| Total revenues | <u>22,656,781</u> | <u>3,993,413</u> | <u>5,792,842</u> | <u>32,443,036</u> |
| Expenses | | | | |
| Program | 16,737,160 | - | - | 16,737,160 |
| General and administrative | 1,390,295 | - | - | 1,390,295 |
| Fundraising | 901,324 | - | - | 901,324 |
| Total expenses | <u>19,028,779</u> | <u>-</u> | <u>-</u> | <u>19,028,779</u> |
| Change in net assets | 3,628,002 | 3,993,413 | 5,792,842 | 13,414,257 |
| Net assets at beginning of year | <u>9,956,259</u> | <u>45,261,930</u> | <u>81,113,041</u> | <u>136,331,230</u> |
| Net assets at end of year | <u>\$ 13,584,261</u> | <u>\$ 49,255,343</u> | <u>\$ 86,905,883</u> | <u>\$ 149,745,487</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, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|-----------------------|
| Revenues | | | | |
| Contributions - transfers from University System of Maryland Foundation | \$ 58,235 | \$ 479,660 | \$ 352,125 | \$ 890,020 |
| Contributions and grants | 4,709,520 | 11,958,421 | 5,949,074 | 22,617,015 |
| Investment income | 834,829 | 660,672 | - | 1,495,501 |
| Other program income | 145,778 | - | - | 145,778 |
| Realized and unrealized gains and losses on investments | (8,608,534) | (20,278,921) | - | (28,887,455) |
| Net assets released from restriction | 11,954,586 | (11,954,586) | - | - |
| Total revenues | <u>9,094,414</u> | <u>(19,134,754)</u> | <u>6,301,199</u> | <u>(3,739,141)</u> |
| Expenses | | | | |
| Program | 15,935,269 | - | - | 15,935,269 |
| General and administrative | 1,356,337 | - | - | 1,356,337 |
| Fundraising | 635,101 | - | - | 635,101 |
| Total expenses | <u>17,926,707</u> | <u>-</u> | <u>-</u> | <u>17,926,707</u> |
| Change in net assets | (8,832,293) | (19,134,754) | 6,301,199 | (21,665,848) |
| Net assets at beginning of year | <u>18,788,552</u> | <u>64,396,684</u> | <u>74,811,842</u> | <u>157,997,078</u> |
| Net assets at end of year | <u>\$ 9,956,259</u> | <u>\$ 45,261,930</u> | <u>\$ 81,113,041</u> | <u>\$ 136,331,230</u> |

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, 2010 and 2009

| | 2010 | 2009 |
|--|---------------------|--------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 13,414,257 | \$ (21,665,848) |
| 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 | (11,107,406) | 28,887,455 |
| Decrease in accounts & notes receivable | 550 | 190,000 |
| Increase in due from other foundations | (631) | (19,116) |
| Decrease/(increase) in contributions receivable | 3,831,223 | (1,490,783) |
| (Increase)/decrease in assets held under split-interest agreements | (58,920) | 484,264 |
| Decrease in other assets | 8,106 | 346,562 |
| Increase in cash liability | 247,575 | - |
| Increase/(decrease) in accounts payable and accrued expenses | 1,626,206 | (76,586) |
| Contributions restricted for long-term investment | (6,606,412) | (7,034,319) |
| Total adjustments | <u>(12,059,709)</u> | <u>21,287,477</u> |
| Net cash and cash equivalents provided by/(used in) operating activities | <u>1,354,548</u> | <u>(378,371)</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (39,643,948) | (28,247,014) |
| Sales of investments | 31,040,820 | 22,097,316 |
| Net cash and cash equivalents used in investing activities | <u>(8,603,128)</u> | <u>(6,149,698)</u> |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for long-term investment | 6,606,412 | 7,034,319 |
| Decrease in payable under split-interest agreements | (29,800) | (69,509) |
| Net cash and cash equivalents provided by financing activities | <u>6,576,612</u> | <u>6,964,810</u> |
| Net increase in cash and cash equivalents | (671,968) | 436,741 |
| Cash and cash equivalents at beginning of year | 671,968 | 235,227 |
| Cash and cash equivalents at end of year | <u>\$ -</u> | <u>\$ 671,968</u> |

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

The University of Maryland Baltimore Foundation, Inc.
Notes to Financial Statements
June 30, 2010 and 2009

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, 2010 was in a net-liability position, with a cash liability of \$247,575.

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 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.

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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 and the change in value of existing agreements recognized was \$103,971 and \$(376,942) for fiscal years 2010 and 2009, 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 fair market value of the liability from these split-interest agreements amounted to \$1,622,161, which is expected to be paid in 4.3 to 45 years based on IRS actuarial tables. The expected rate of return of these assets is 6.25% and the discount rate used to compute the present value of these receivables is the Internal Revenue Service discount rate applied at the time of each gift.

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 2010 average monthly total operating investment fund balance in support of Foundation operating and fundraising expenses. This reserve 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, 2010 and 2009, 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, effective for financial statements for fiscal years beginning after December 15, 2008. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Effective July 1, 2009, UMBF adopted this guidance, and there was no impact on the financial statements upon adoption. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2006.

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.

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.

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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 to its funds due to lock up periods and/or partnership agreements. In addition, the Foundation depends on the general partner or the investment manager of the investment for pricing information. In general, the investment funds and partnerships that are within level 3 are subject to annual audits by large reputable accounting firms.

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

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

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

| | June 30, 2010 | | | |
|--|-----------------------------|---|--|--|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Cash equivalents and money market funds ⁽¹⁾ | \$ 7,738,222 | \$ 7,738,222 | \$ - | \$ - |
| Commonfund ⁽²⁾ | 1,305,564 | - | 1,305,564 | - |
| Investment in special strategies - USMF ⁽³⁾ | 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 | \$ - | \$ - |

The University of Maryland Baltimore Foundation, Inc.
Notes to Financial Statements
June 30, 2010 and 2009

| | June 30, 2009 | | | |
|--|-----------------------|--|---|--|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Cash equivalents and money market funds ⁽¹⁾ | \$ 11,473,150 | \$ 11,473,150 | \$ - | \$ - |
| Commonfund ⁽²⁾ | 1,168,148 | - | 1,168,148 | - |
| Investment in special strategies - USMF ⁽³⁾ | 96,688,970 | 28,905,948 | - | 67,783,022 |
| Total investments | <u>\$ 109,330,268</u> | <u>\$ 40,379,098</u> | <u>\$ 1,168,148</u> | <u>\$ 67,783,022</u> |
| Assets held under split interest agreements | <u>\$ 2,581,217</u> | <u>\$ 2,581,217</u> | <u>\$ -</u> | <u>\$ -</u> |

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.
- (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:

U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage backed securities represent approximately 1%, 21%, and 1%, respectively, of the total Investment in special strategies - USMF at June 30, 2010. 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.

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Equity securities represent approximately 3% of the total Investment in special strategies - USMF at June 30, 2010. 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 ask prices as furnished by dealers who are market makers in such securities. In general, equities are classified as level 1. Equity securities are invested to gain exposure to the overall direction of global equity markets.

Absolute return represent approximately 24% of the total Investment in special strategies - USMF at June 30, 2010, and consists of investments that involve the purchase and sale of shares in companies that are subject of publically announced transactions, including, but not limited to corporate combinations, tender offers restructurings and bankruptcies. The fair value of these securities is based on net asset value. The majority of these investments can be redeemed within one year, while some extend past a year. Due to the redemption periods, these are classified as level 3.

Long/short strategies represent approximately 24% of the total Investment in special strategies - USMF at June 30, 2010. Fair value is estimated using the net asset value. These strategies take long and short positions in publically traded equity securities in an effort to achieve attractive return with moderate risk. Subscriptions and lock-up periods are associated with these investments, rendering them as level 3 investments.

Private capital represent approximately 26% of the total Investment in special strategies - USMF at June 30, 2010, and represents purchases of all or a significant portion of the equity interest in a company. Fair value is based in part on information provided by the general partners or investment managements. Private capital includes partnerships where the underlying investments are marketable and unmarketable securities, real estate, natural resources or energy. There are lock-up periods associated with many of these investments. These investments are classified as level 3 based on unobservable inputs as well as redemption and lock-up periods that are associated with many of these investments.

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.

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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:

| | |
|---|-----------------------------|
| Fair value recorded at June 30, 2008 | \$ 122,204,580 |
| Realized/unrealized gains/(losses) | (28,887,455) |
| Net purchases, sales, settlements | 16,456,950 |
| Transfers in/(out) | (41,991,053) |
| Fair value recorded at June 30, 2009 | <u>67,783,022</u> |
| Realized/unrealized gains/(losses) | 15,789,020 |
| Net purchases, sales, settlements | 1,005,782 |
| Fair value recorded at June 30, 2010 | <u>\$ 84,577,824</u> |

4. 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.

5. Contributions Receivable

Promised contributions at June 30 2010 and 2009 are due as follows:

| | 2010 | 2009 |
|---------------------------------------|-----------------------------|-----------------------------|
| Due within one year | \$ 9,814,988 | \$ 8,331,819 |
| Due within one to five years | 13,676,552 | 15,686,936 |
| More than five years | 869,908 | 4,734,900 |
| Subtotal | <u>24,361,448</u> | <u>28,753,655</u> |
| Less: present value component | (1,735,535) | (2,726,183) |
| Less: allowance for doubtful accounts | (972,479) | (542,815) |
| Total contributions receivable | <u>\$ 21,653,434</u> | <u>\$ 25,484,657</u> |

The discount rate used to calculate the present value component at June 30, 2010 and 2009 was 3.50% and 3.06%, respectively, for those contributions due in zero to five years and 4.00% and 4.59%, respectively, for contributions due in more than five years.

6. Conditional Promises to Give and Intentions

Contributors have informed the Foundation of intentions to give approximately \$32 million and \$31 million at June 30, 2010 and 2009, respectively. These intentions relate primarily to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion. Therefore, they are appropriately not recorded in the accompanying financial statements.

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7. Endowments

The Foundation's endowment consists of approximately \$93.5 million individual donor restricted endowment funds and \$2.1 million board-designated endowment funds, at June 30, 2010, 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.

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:

| 2010 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-----------------------|-------------------------------|-------------------------------|----------------------|
| Donor-restricted endowment funds | \$ (2,683,297) | \$ 9,254,873 | \$ 86,905,883 | \$ 93,477,459 |
| Board-designated endowment funds | - | 2,068,125 | - | 2,068,125 |
| Total endowment funds | <u>\$ (2,683,297)</u> | <u>\$ 11,322,998</u> | <u>\$ 86,905,883</u> | <u>\$ 95,545,584</u> |

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| 2009 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-----------------------|-------------------------------|-------------------------------|----------------------|
| Donor-restricted endowment funds | \$ (6,755,423) | \$ 6,139,454 | \$ 81,113,041 | \$ 80,497,072 |
| Board-designated endowment funds | - | 1,515,255 | - | 1,515,255 |
| Total endowment funds | \$ (6,755,423) | \$ 7,654,709 | \$ 81,113,041 | \$ 82,012,327 |

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

| 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 | \$ (2,683,298) | \$ 11,322,999 | \$ 86,905,883 | \$ 95,545,584 |

| 2009 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------|-------------------------------|-------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ (34,369) | \$ 26,791,925 | \$ 74,811,842 | \$ 101,569,398 |
| Investment return | | | | |
| Investment income | - | 683,049 | - | 683,049 |
| Net gains/(losses) (realized and unrealized) | - | (24,578,177) | - | (24,578,177) |
| Subtotal | (34,369) | 2,896,797 | 74,811,842 | 77,674,270 |
| Gifts | - | 493,610 | 6,301,199 | 6,794,809 |
| Appropriation of endowment assets for expenditure | - | (2,456,752) | - | (2,456,752) |
| Transfer balance of net deficit to unrestricted | (6,721,054) | 6,721,054 | - | - |
| Endowment net assets, end of year | \$ (6,755,423) | \$ 7,654,709 | \$ 81,113,041 | \$ 82,012,327 |

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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:

| | 2010 | 2009 |
|------------------|----------------------|----------------------|
| Program support | \$ 22,671,239 | \$ 19,646,693 |
| Student support | 23,398,225 | 21,555,818 |
| Faculty support | 39,785,152 | 39,124,498 |
| Research | 946,152 | 680,917 |
| Capital projects | 105,115 | 105,115 |
| Total | <u>\$ 86,905,883</u> | <u>\$ 81,113,041</u> |

Temporarily Restricted Net Assets - Endowment Funds

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

| | 2010 | 2009 |
|------------------|----------------------|---------------------|
| Program support | \$ 4,427,481 | \$ 2,900,591 |
| Student support | 1,893,615 | 1,309,052 |
| Faculty support | 4,531,244 | 3,065,899 |
| Research | 451,306 | 372,632 |
| Capital projects | 19,352 | 6,535 |
| Total | <u>\$ 11,322,998</u> | <u>\$ 7,654,709</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 \$2,683,298 and \$6,755,423 at June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Return Objectives and Risk Parameters

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 seek to provide a steady and sustainable distribution of funds to support operations at our various institutions. The Committee governs according to fundamental investment principles, approved by the Investment Committee, 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 Trust Universe Comparison services.

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 4.73% for fiscal year 2010 and 4.33% for fiscal year 2009.

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.

8. Restricted Net Asset Activity

Temporarily Restricted Net Assets

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

| | 2010 | 2009 |
|------------------|----------------------|----------------------|
| Program support | \$ 22,935,523 | \$ 18,957,574 |
| Student support | 4,135,461 | 3,800,909 |
| Faculty support | 8,512,073 | 7,662,189 |
| Research | 8,333,179 | 8,953,943 |
| Capital projects | 5,339,108 | 5,887,315 |
| Total | <u>\$ 49,255,343</u> | <u>\$ 45,261,930</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:

| | 2010 | 2009 |
|------------------|----------------------|----------------------|
| Program support | \$ 5,992,574 | \$ 5,580,341 |
| Student support | 893,777 | 776,292 |
| Faculty support | 1,265,330 | 475,132 |
| Research | 3,897,908 | 3,497,454 |
| Capital projects | 1,524,643 | 1,625,367 |
| Total | <u>\$ 13,574,232</u> | <u>\$ 11,954,586</u> |

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9. 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, 2010 and 2009, endowment funds totaling \$687,971 and \$890,020 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. The amount of any future transfers of endowment assets or pledges currently included in the assets of USMF is not determinable.

10. Charitable Gift Annuity Requirements

As required by the various State regulations, the Foundation has internally restricted cash and investments associated with gift annuity liabilities of \$1,312,002 and \$1,353,792 as of June 30, 2010 and 2009, respectively.

11. 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 \$861,966 and \$826,245 for the years ended June 30, 2010 and 2009, respectively.

12. 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, 2010, 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.

13. Subsequent Events

Subsequent events have been evaluated by management through October 27, 2010, the date the financial statements were available to be issued.