



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

**Financial Statements**  
Years Ended June 30, 2020 and 2019

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

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Financial Statements  
Years Ended June 30, 2020 and 2019

# University of Maryland Baltimore Foundation, Inc.

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Tel: 301-354-2500  
Fax: 301-354-2501  
www.bdo.com

12505 Park Potomac Avenue  
Suite 700  
Potomac, MD 20854

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the **University of Maryland Baltimore Foundation, Inc.** (the "Foundation" or "UMBF"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **University of Maryland Baltimore Foundation, Inc.** as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

October 19, 2020

## Financial Statements

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# University of Maryland Baltimore Foundation, Inc.

## Statements of Financial Position

<i>June 30,</i>	2020	2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,952,269	\$ 2,276,444
Due from other foundations	18,204	19,017
Prepaid expenses	32,803	14,712
Contributions receivable, net - current portion	24,378,967	19,509,363
<b>Total current assets</b>	<b>27,382,243</b>	<b>21,819,536</b>
<b>Investments</b>		
Endowment	230,525,296	225,992,571
Operating	77,589,321	72,779,296
<b>Total investments</b>	<b>308,114,617</b>	<b>298,771,867</b>
<b>Other assets</b>		
Contributions receivable, net - non-current portion	11,080,039	21,310,379
Assets held under split-interest agreements	3,418,265	2,842,063
Other assets	1,582,472	1,582,472
<b>Total other assets</b>	<b>16,080,776</b>	<b>25,734,914</b>
<b>Total assets</b>	<b>\$ 351,577,636</b>	<b>\$ 346,326,317</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,872,018	\$ 1,254,920
<b>Other liabilities</b>		
Payable under split-interest agreements	2,202,594	1,696,555
<b>Total liabilities</b>	<b>4,074,612</b>	<b>2,951,475</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	44,324,298	42,750,792
With donor restrictions	303,178,726	300,624,050
<b>Total net assets</b>	<b>347,503,024</b>	<b>343,374,842</b>
<b>Total liabilities and net assets</b>	<b>\$ 351,577,636</b>	<b>\$ 346,326,317</b>

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

# University of Maryland Baltimore Foundation, Inc.

## Statement of Activities

<i>Year ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Contributions and grants	\$ 5,020,011	\$ 21,431,422	\$ 26,451,433
Investment return, net	1,872,268	1,196,383	3,068,651
Other program income	454,964	-	454,964
Net assets released from restrictions	20,073,129	(20,073,129)	-
<b>Total revenues</b>	<b>27,420,372</b>	<b>2,554,676</b>	<b>29,975,048</b>
<b>Expenses</b>			
<b>Program services</b>			
Campus programs	10,617,394	-	10,617,394
Student and faculty support	7,000,591	-	7,000,591
Research	1,654,862	-	1,654,862
Capital projects	3,169,034	-	3,169,034
<b>Total program services</b>	<b>22,441,881</b>	<b>-</b>	<b>22,441,881</b>
<b>Supporting services</b>			
General and administrative	2,251,399	-	2,251,399
Fundraising	1,153,586	-	1,153,586
<b>Total supporting services</b>	<b>3,404,985</b>	<b>-</b>	<b>3,404,985</b>
<b>Total expenses</b>	<b>25,846,866</b>	<b>-</b>	<b>25,846,866</b>
<b>Change in net assets</b>	<b>1,573,506</b>	<b>2,554,676</b>	<b>4,128,182</b>
<b>Net assets, beginning of year</b>	<b>42,750,792</b>	<b>300,624,050</b>	<b>343,374,842</b>
<b>Net assets, end of year</b>	<b>\$ 44,324,298</b>	<b>\$ 303,178,726</b>	<b>\$ 347,503,024</b>

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

# University of Maryland Baltimore Foundation, Inc.

## Statement of Activities

<i>Year ended June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Contributions and grants	\$ 7,360,291	\$ 19,786,431	\$ 27,146,722
Investment return, net	1,609,339	14,225,953	15,835,292
Other program income	1,271,780	-	1,271,780
Net assets released from restrictions	24,358,341	(24,358,341)	-
<b>Total revenues</b>	<b>34,599,751</b>	<b>9,654,043</b>	<b>44,253,794</b>
<b>Expenses</b>			
<b>Program services</b>			
Campus programs	13,676,468	-	13,676,468
Student and faculty support	6,932,837	-	6,932,837
Research	1,466,625	-	1,466,625
Capital projects	510,722	-	510,722
<b>Total program services</b>	<b>22,586,652</b>	<b>-</b>	<b>22,586,652</b>
<b>Supporting services</b>			
General and administrative	2,130,966	-	2,130,966
Fundraising	1,593,168	-	1,593,168
<b>Total supporting services</b>	<b>3,724,134</b>	<b>-</b>	<b>3,724,134</b>
<b>Total expenses</b>	<b>26,310,786</b>	<b>-</b>	<b>26,310,786</b>
<b>Change in net assets</b>	<b>8,288,965</b>	<b>9,654,043</b>	<b>17,943,008</b>
<b>Net assets, beginning of year</b>	<b>34,461,827</b>	<b>290,970,007</b>	<b>325,431,834</b>
<b>Net assets, end of year</b>	<b>\$ 42,750,792</b>	<b>\$ 300,624,050</b>	<b>\$ 343,374,842</b>

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

## University of Maryland Baltimore Foundation, Inc.

### Statement of Functional Expenses

<i>Year Ended June 30, 2020</i>	Program Services				Supporting Services				Total Expenses
	Campus Programs	Student and Faculty Support	Research	Capital Projects	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Grant expense	\$ 5,630,207	\$ 6,845,718	\$ 1,483,236	\$ 3,044,869	\$ 17,004,030	\$ -	\$ 4,076	\$ 4,076	\$ 17,008,106
Conferences, conventions and meetings	1,627,504	63,107	47,091	-	1,737,702	31,946	103,516	135,462	1,873,164
Salary and fringe expense	-	-	-	-	-	1,735,889	-	1,735,889	1,735,889
Equipment rentals, repairs and maintenance	1,406,448	47,966	49,302	113,632	1,617,348	31,709	25,266	56,975	1,674,323
Bad debt expense	-	-	-	-	-	-	738,392	738,392	738,392
Office expense and IT costs	520,108	3,981	8,385	10,533	543,007	114,475	68,060	182,535	725,542
Advertising and promotion	546,364	5,073	1,389	-	552,826	23,658	35,491	59,149	611,975
Consultants	382,183	2,301	2,133	-	386,617	72,922	44,038	116,960	503,577
Printing and publications	188,586	10,526	1,882	-	200,994	29,691	130,620	160,311	361,305
Travel	122,130	7,019	42,231	-	171,380	10,407	2,318	12,725	184,105
Taxes, insurances and bank fees	95,356	-	446	-	95,802	71,897	1,809	73,706	169,508
Professional fees	6,036	-	-	-	6,036	127,942	-	127,942	133,978
Research	53,053	14,900	18,767	-	86,720	-	-	-	86,720
Other expenses	39,419	-	-	-	39,419	863	-	863	40,282
<b>Total expenses</b>	<b>\$ 10,617,394</b>	<b>\$ 7,000,591</b>	<b>\$ 1,654,862</b>	<b>\$ 3,169,034</b>	<b>\$ 22,441,881</b>	<b>\$ 2,251,399</b>	<b>\$ 1,153,586</b>	<b>\$ 3,404,985</b>	<b>\$ 25,846,866</b>

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

## University of Maryland Baltimore Foundation, Inc.

### Statement of Functional Expenses

Year Ended June 30, 2019	Program Services				Supporting Services				Total Expenses
	Campus Programs	Student and Faculty Support	Research	Capital Projects	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Grant expense	\$ 7,495,182	\$ 6,757,083	\$ 1,179,968	\$ 172,190	\$ 15,604,423	\$ -	\$ 430	\$ 430	\$ 15,604,853
Conferences, conventions and meetings	2,117,467	44,977	90,969	18,075	2,271,488	73,406	279,329	352,735	2,624,223
Salary and fringe expense	-	-	-	-	-	1,482,625	-	1,482,625	1,482,625
Equipment rentals, repairs and maintenance	1,695,197	49,607	71,307	221,647	2,037,758	20,520	47,469	67,989	2,105,747
Bad debt expense	-	-	-	-	-	-	933,470	933,470	933,470
Office expense and IT costs	353,236	4,889	14,272	1,530	373,927	162,144	89,169	251,313	625,240
Advertising and promotion	554,398	38,471	2,636	3,280	598,785	17,899	29,872	47,771	646,556
Consultants	825,568	298	647	-	826,513	80,554	87,447	168,001	994,514
Printing and publications	307,573	11,129	608	-	319,310	78,229	112,364	190,593	509,903
Travel	206,618	13,393	64,963	-	284,974	23,741	11,793	35,534	320,508
Taxes, insurances and bank fees	10,693	-	440	94,000	105,133	59,101	1,825	60,926	166,059
Professional fees	-	-	5,000	-	5,000	132,747	-	132,747	137,747
Research	65,249	12,990	35,815	-	114,054	-	-	-	114,054
Other expenses	45,287	-	-	-	45,287	-	-	-	45,287
<b>Total expenses</b>	<b>\$ 13,676,468</b>	<b>\$ 6,932,837</b>	<b>\$ 1,466,625</b>	<b>\$ 510,722</b>	<b>\$ 22,586,652</b>	<b>\$ 2,130,966</b>	<b>\$ 1,593,168</b>	<b>\$ 3,724,134</b>	<b>\$ 26,310,786</b>

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

# University of Maryland Baltimore Foundation, Inc.

## Statements of Cash Flows

<i>Years ended June 30,</i>	2020	2019
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,128,182	\$ 17,943,008
<b>Adjustments to reconcile change in net assets to cash used in operating activities:</b>		
Contributions restricted for long-term investment	(11,907,366)	(16,059,497)
Net realized and unrealized losses (gains) on investments	1,922,775	(11,889,774)
Write off uncollectible contributions receivable	174,533	660,479
Accretion of discount on contributions receivable	1,421,209	853,827
Change in allowance for contributions receivable	738,392	933,470
<b>(Increase) decrease in assets:</b>		
Due from other foundations	813	(254)
Prepaid expenses	(18,091)	8,638
Contributions receivable	3,026,602	5,204,428
Assets held under split-interest agreements	(576,202)	55,364
<b>Increase (decrease) in liabilities:</b>		
Accounts payable and accrued expenses	617,098	11,071
<b>Net cash used in operating activities</b>	<b>(472,055)</b>	<b>(2,279,240)</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(41,886,723)	(46,595,182)
Sales of investments	30,621,198	32,990,150
<b>Net cash used in investing activities</b>	<b>(11,265,525)</b>	<b>(13,605,032)</b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term investments	11,907,366	16,059,497
Payable under split-interest agreements	506,039	(94,672)
<b>Net cash provided by financing activities</b>	<b>12,413,405</b>	<b>15,964,825</b>
<b>Increase in cash and cash equivalents</b>	<b>675,825</b>	<b>80,553</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,276,444</b>	<b>2,195,891</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,952,269</b>	<b>\$ 2,276,444</b>

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to 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 (“UMB”) 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 (U.S. GAAP).

#### *Cash and Cash Equivalents*

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

#### *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. 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, substantially all of which are held in a pool, investment gains or losses are distributed monthly among the individual endowment funds on the basis of the number of units of the pool held by each individual endowment account. Refer to note 4 for further detail on valuation of investments.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### ***Contributions Receivable***

Unconditional promises to give with payments due in future periods are reported as support with donor restrictions 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 charitable gift annuities and charitable remainder unitrusts, for which the Foundation acts as trustee and holds the assets. When the trust's obligations to all beneficiaries expire, the remaining assets 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 Foundation had new split-interest agreements of \$708,636 and \$135,090 in fiscal years 2020 and 2019, respectively. The change in value of existing agreements recognized was \$174,149 and \$281,721 for fiscal years 2020 and 2019, 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 Internal Revenue Service (IRS) actuarial tables. The discount rates used to compute the present value of these payables are the original discount rates used at the time of the gift under Internal Revenue Code (IRC) Section 7520 and range from 1.0% to 6.2%.

### ***Contributions and Grants***

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes, are reported as support with donor restrictions.

Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as support without donor restriction.

The Foundation reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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assets with explicit restrictions that specify how the assets are to be used are reported as support with donor restrictions.

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

Conditional promises to give are recognized as revenue when conditions on which they depend have been substantially met. Refer to note 8 for discussion of conditional promises to give.

### ***Contributions of Real and Personal Property***

The Foundation receives various contributions of noncash items. It is the Foundation's policy to record the assets not intended for sale at the fair market value at the date of the gift. These assets are held for investment purposes and are not depreciated. They are included in "Other Assets" in the accompanying statements of financial position.

### ***Classification of Net Assets***

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

#### ***Net assets without donor restrictions***

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

These net assets also include board designated assets, these amounts are not subject to donor restriction and are designated by the Board for a specific use.

#### ***Net assets with donor restrictions***

Net assets with donor restrictions are subject to stipulations imposed by donors. These net assets generally result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes.

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### ***Expenses***

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

### **Functional Allocation of Expenses**

The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, costs have been directly charged to the programs and supporting services benefited. Program expenses are in support of UMB's institution or department or program activity. General and administrative expenses relate to operation of accounting office of the Foundation, including the salary reimbursement to UMB. Fundraising expenses support fundraising initiatives and activities throughout the Foundation's campus. See Note 12 for the program and supporting service descriptions.

### ***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 0.8% of the average monthly total operating investment fund balance, in support of Foundation operating 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 0.35% 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.

#### ***Investments-Endowment***

Professional investment fees are deducted by the investment manager prior to the distribution of income. In addition, UMBF annually assesses each endowment account a fee for endowment operating and administrative expenses at the rate of 1.37% based on the market value as of December 31 of the previous fiscal year. Also, from each endowment account, USMF deducts a fee of 0.35% annually based on the market value as of December 31 of the previous fiscal year towards endowment assessment and investment office fees in accordance with the terms of an investment management agreement.

### ***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. A review of activities for 2020 concluded that the Foundation had no material unrelated business income, no provision for income tax was made for the year ended June 30, 2020.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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U.S. GAAP requires management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. Therefore, no asset or liability has been recorded as of June 30, 2020 or 2019 for uncertain tax positions. The Foundation is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in process.

### ***Risks and Uncertainties***

On January 30, 2020, the World Health Organization (WHO) announced a new strain of coronavirus. As a result of the risks to the international community as the virus has spread globally beyond its point of origin, on March 11, 2020 the WHO declared the novel coronavirus a global pandemic.

The extent of the impact of the COVID-19 outbreak on the operational and financial performance of the Foundation will depend on certain developments, including the duration and spread of the outbreak. COVID-19 presents potential material adverse uncertainty and risk with respect to the Foundation, its performance, and its financial results. The Foundation's core operations are not funded by contribution revenue, thus potential declines in contributions as a result of the pandemic will not have a negative impact on the Foundation.

On March 27, 2020 the President of the United States, signed into law the "Coronavirus Aid, Relief and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modification to the new interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

The Foundation's management has examined the provisions of the CARES Act and has chosen not to avail itself to any of the provisions under the CARES Act. Management will assess any future aid packages to determine its impact on the Foundation.

### ***Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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 reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### ***Accounting Pronouncement Adopted***

In May 2014, the Financial Account Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606)*. This guidance requires new and expanded disclosures related to the recognition of revenue and judgments made in determining when and how to recognize revenue related to contracts with customers. This accounting standard became effective for the Foundation's fiscal year ended June 30, 2020. However, the adoption of this standard did not have a material impact on the Foundation's financial reporting as the Foundation's primary revenue stream is from contributions, and the FASB excluded contributions from the standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The ASU is effective for transactions in which the Foundation serves as the resource recipient to annual periods beginning after December 15, 2018 and is effective for transactions in which the Foundation serves as a resource provider for annual periods after December 15, 2019. The Foundation adopted this update during the year ended June 30, 2020, including transactions in which the Foundation serves as a resource provider under the modified prospective basis. The adoption of this update did not materially impact on the Foundation's financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, to address the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that a statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Thus, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Foundation implemented the ASU for the year ended June 30, 2020. The adoption of this standard did not have a material impact on the Foundation's financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. This ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The adoption of this standard did not have a material impact on the Foundation's financial statements.

### ***Accounting Pronouncements to be Adopted***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update, along with ASU 2018-10, *Codification Improvements to Topic 842: Leases*, ASU 2018-11, *Leases (Topic 842): Targeted Improvements* and ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for*

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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*Lessors*, establishes a comprehensive leasing standard. These updates require the recognition of lease assets and lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The guidance also expands the required quantitative and qualitative lease disclosures as well as provides entities with an additional (and optional) transition method to adopt the new standard. The ASU is effective for the Foundation's fiscal year 2022. Management is currently evaluating the impact of this ASU on their financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, Fair Value Measurement. Management is currently evaluating the impact of this ASU on their financial statements.

### 3. Liquidity and Availability of Resources

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date consist of the following:

<i>June 30,</i>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 2,952,269	\$ 2,276,444
Investments - operating	77,589,321	72,779,296
Total financial assets available within one year	80,541,590	75,055,740
Less: Amounts unavailable for general expenditures with one year, due to:		
School/Unit/UMB Designated operating funds	(69,164,126)	(62,890,559)
Board Designated Net Assets - other scholarship matching funds	(2,592,626)	(1,907,037)
Financial assets available to meet cash needs for general expenditures within one year	\$ 8,784,838	\$ 10,258,144

The Foundation manages its liquid resources in order to meet the spending needs of the University's respective schools and the UMB Foundation annual operational expenditures as authorized by the board. The investment-operating portfolio is managed in accordance with the USMF investment policy, with 100% allocation to Safe Assets.

The majority (approximately 86% for 2020 and 84% for 2019) of financial resources available within one year of the date of the statement of financial position is under direction of the university schools. The balance consists of board approved Foundation general operational expenses, board designated funds (i.e. scholarship match), and the board's discretionary funds.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### 4. Fair Value Measurements

FASB Accounting Standards Codification (ASC) *Fair Value Measurement* (820) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value standard also requires disclosures 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 mutual funds.

**Level 2:** Pricing inputs including market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. Investments which are generally included in this category include less liquid and restricted equity securities and fixed income securities.

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

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment on the part of the Foundation. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

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

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

The following tables present the financial investments carried at fair value as of June 30, 2020 and 2019 by the fair valuation hierarchy defined above:

	June 30, 2020				
	Quoted Prices in Active Markets for Identical Investments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at NAV*	Total Fair Value
<b>Investments</b>					
Cash equivalents and money market funds <sup>(1)</sup>	\$ 4,867,272	\$ -	\$ -	\$ -	\$ 4,867,272
Commonfund <sup>(2)</sup>	-	-	-	2,148,538	2,148,538
Investment in special strategies - USMF <sup>(3)</sup>	-	-	301,098,807	-	301,098,807
<b>Total investments</b>	<b>\$ 4,867,272</b>	<b>\$ -</b>	<b>\$ 301,098,807</b>	<b>\$ 2,148,538</b>	<b>\$ 308,114,617</b>

<b>Assets held under split interest agreements</b>	<b>\$ 3,418,265</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,418,265</b>
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\* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

	June 30, 2019				
	Quoted Prices in Active Markets for Identical Investments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at NAV*	Total Fair Value
<b>Investments</b>					
Cash equivalents and money market funds <sup>(1)</sup>	\$ 3,771,796	\$ -	\$ -	\$ -	\$ 3,771,796
Commonfund <sup>(2)</sup>	-	-	-	2,173,763	2,173,763
Investment in special strategies - USMF <sup>(3)</sup>	-	-	292,826,308	-	292,826,308
<b>Total investments</b>	<b>\$ 3,771,796</b>	<b>\$ -</b>	<b>\$ 292,826,308</b>	<b>\$ 2,173,763</b>	<b>\$ 298,771,867</b>

<b>Assets held under split interest agreements</b>	<b>\$ 2,842,063</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,842,063</b>
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\* Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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There were no transfers of assets between Level 1, 2 or 3 classification for the years ended June 30, 2020 or 2019.

- (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. These investments are classified as Level 1. Valuations are based on quoted market prices.
- (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 based on the practical expedient. The Foundation invests in the Commonfund to diversify their equity portfolio and gain exposure to the overall direction of global equity markets. There are no outstanding unfunded commitments as of June 30, 2020 and 2019.
- (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. The Foundation invests in the unitized portfolio to benefit from economies of scale to gain access to the underlying investment strategies. The Foundation has a unitized ownership interest in this portfolio and does not have direct ownership of the underlying investments in the portfolio. The investment in special strategies-USMF is presented in Level 3 in the chart above as the portfolio does not trade in an active market, pricing inputs are unobservable and the portfolio is subject to certain redemption restrictions consistent with those of the underlying investments in the portfolio, as discussed below, and subject to the discretion of the management of USMF. The fair value of the special strategies-USMF investment has been estimated using the unit value per share of the portfolio based on unobservable inputs and relies on underlying general partners and investment managers for pricing information. The Foundation has no outstanding unfunded commitments to the USMF unitized portfolio at June 30, 2020 and 2019. The components of and a description of the investment strategies of the special strategies-USMF portfolio are as follows:

The USMF portfolio invests in money-market funds and short-term instruments, including amounts invested with depository institutions and managed accounts which are readily convertible to known amounts of cash. The portfolio invests in money-market and short-term investments to maintain liquidity for spending needs and unfunded commitment liabilities. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The portfolio has not experienced such losses on these funds. USMF has classified these investments as Level 1. Valuation is based on quoted market prices.

The USMF portfolio invests directly in common stock, EFT and mutual funds. In general, equity securities and mutual funds traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the NASDAQ Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. USMF invests in equity securities to gain exposure to the overall direction of global equity markets.

Separately managed accounts represent vehicles that are managed by external investment managers that trade and hold securities on the portfolio's behalf. The investments held in these separately managed accounts are largely publicly traded common stock and fixed income securities that are

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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easily converted into cash, however the vehicle through which they invest is a separately managed account with a fair value that is not observable, but maintains observable inputs that external managers use to determine the fair value of the portfolio and therefore warrants a Level 2 classification. One of the separately managed accounts invests in hedge funds with unobservable inputs and therefore classified as Level 3.

Private investments measured at NAV consists of investments in partnership-based structures where the general partner or investment manager generally values their investments at fair value. The fair value of these investments has been estimated either by using the NAV per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. The private investments offer exposure to intermediate assets, public equity, liquid credit, diversifying strategies and/or private market, through the private investment structure.

Due to the limited availability of valuation data as of USMF's year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. Management adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, and redemptions or returns of capital during the gap period. Net capital activity during the gap periods increased management's estimates \$8.1M and \$6.7M for years ended June 30, 2020 and 2019, respectively. Management will also adjust for known performance adjustments for private investments that hold publicly traded securities. Performance adjustments ranged from 1.2% to 1.6% for those investments on a one-month lag. No performance adjustments are made to investments on a quarter lag given the unobservability of investment performance at the time of the report issuance.

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

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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

		<b>Significant Unobservable Inputs (Level 3)</b>
<b>Fair value recorded at June 30, 2018</b>	\$	268,023,042
Realized and unrealized gains, net		11,694,881
Purchases of portfolio investments		45,075,091
Proceeds from sale of distribution of investments		(31,966,706)
<b>Fair value recorded at June 30, 2019</b>		292,826,308
Realized and unrealized losses, net		(1,982,111)
Purchases of portfolio investments		40,600,599
Proceeds from sale of distribution of investments		(30,345,989)
<b>Fair value recorded at June 30, 2020</b>	\$	301,098,807

Realized and unrealized gains and losses recorded for Level 3 investments are included in the statements of activities as part of investment return, net. Total unrealized gains/(losses) for Level 3 investments were \$(13,659,025) and \$1,767,090 for the years ended June 30, 2020 and 2019, respectively.

### *Fair value and cost of investments*

The fair value and cost of investments held by Funds in which the Foundation invests at June 30 were as follows:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Cash equivalents and money market funds	\$ 4,867,272	\$ 4,867,272	\$ 3,771,796	\$ 3,771,796
Common fund	2,148,538	1,500,000	2,173,763	1,500,000
Investments in special strategies - USMF	301,098,807	286,749,036	292,826,308	264,817,513
	<b>\$ 308,114,617</b>	<b>\$ 293,116,308</b>	<b>\$ 298,771,867</b>	<b>\$ 270,089,309</b>

The fair value of the assets held under split interest agreements was \$3,418,265 and \$2,842,063 at June 30, 2020 and 2019, respectively. The cost was \$3,630,457 and \$2,896,821 at June 30, 2020 and 2019, respectively.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### 5. 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 Directors. USMF serves as recordkeeper under this agreement and investment manager of approximately 98% of the Foundation's investments at June 30, 2020 and 2019. This agreement also allows the Foundation to invest its assets in USMF investment pools. The remaining investments are in three separately managed investment pools at June 30, 2020 and 2019. Approximately \$7 million and \$5.9 million is directly invested by management in three investment pools - the Law School Bond Fund, the PNC Money Market Fund, and the Commonfund Multi-Strategy Equity Fund at June 30, 2020 and 2019, respectively. The assets in these funds consisted of donations and earnings at June 30, 2020 and 2019. The other investments of trusts and annuities are managed and directly invested by a third-party custodian.

### 6. Concentration of Credit Risk

The Foundation maintains cash in bank accounts in amounts that may exceed federally insured limits at times. The Foundation has not experienced any losses in these accounts in the past and believes that it is not exposed to significant credit risk because the accounts are deposited with major financial institutions. Credit risk with respect to receivables is generally limited as the Foundation has outstanding receivables with several donors.

### 7. Contributions Receivable

Promised contributions are due as follows at June 30:

	2020	2019
Due within one year	\$ 26,327,798	\$ 21,047,209
Due within one to five years	11,206,723	22,850,375
More than five years	468,176	148,666
<b>Subtotal</b>	<b>38,002,697</b>	<b>44,046,250</b>
Less: allowance for doubtful accounts	(2,089,826)	(1,351,434)
Less: unamortized discount	(453,865)	(1,875,074)
<b>Contributions receivable, net</b>	<b>35,459,006</b>	<b>40,819,742</b>
Less: contributions receivable - non- current portion	(11,080,039)	(21,310,379)
<b>Contributions receivable - current portion</b>	<b>\$ 24,378,967</b>	<b>\$ 19,509,363</b>

The discount rate used to calculate the present value component at June 30, 2020 and 2019 was 0.18% and 1.71%, respectively. The difference between the fair value of contributions receivable and the carrying value is deemed to be immaterial for financial statement purposes.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### 8. Conditional Promises to Give and Intentions (Unaudited)

Various contributors have informed the Foundation of intentions to give approximately \$91 million and \$85 million at June 30, 2020 and 2019, respectively. These intentions relate primarily to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion. These amounts are not recorded in the accompanying financial statements as they are deemed conditional promises to give.

### 9. Endowments

The Foundation's endowment consists of approximately 722 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds that function as endowment funds. The net assets associated with endowment funds, including those that function as endowment 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 at least 95% of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions, (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the Foundation and the endowment fund
- (3) The general economic conditions
- (4) The possible effect of inflation 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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

The Foundation's endowment funds consist of the following as of June 30, 2020:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 5,968,564	\$ -	\$ 5,968,564
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be held in perpetuity by donors	-	203,525,252	203,525,252
Other restricted endowment funds	-	393,490	393,490
Funds treated as endowment funds	-	6,655,050	6,655,050
Accumulated investment gains	194,785	40,331,307	40,526,092
<b>Total</b>	<b>\$ 6,163,349</b>	<b>\$ 250,905,099</b>	<b>\$ 257,068,448</b>

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

	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 5,016,438	\$ -	\$ 5,016,438
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be held in perpetuity by donors	-	194,687,161	194,687,161
Other restricted endowment funds	-	391,828	391,828
Funds treated as endowment funds	-	6,650,324	6,650,324
Accumulated investment gains	242,297	47,683,352	47,925,649
<b>Total</b>	<b>\$ 5,258,735</b>	<b>\$ 249,412,665</b>	<b>\$ 254,671,400</b>

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

### *Changes in Endowment Net Assets*

The following table represents the changes in endowment net assets for the years ended:

<i>June 30, 2020</i>	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	\$ 5,258,735	\$ 249,412,665	\$ 254,671,400
Contributions and grants	952,127	8,838,091	9,790,218
Investment return, net	(47,513)	1,191,651	1,144,138
Appropriation of endowment assets for expenditure	-	(5,665,167)	(5,665,167)
Transfer of Board designated match and earnings			
Endowment fees	-	(2,872,141)	(2,872,141)
<b>Endowment net assets, end of the year</b>	<b>\$ 6,163,349</b>	<b>\$ 250,905,099</b>	<b>\$ 257,068,448</b>

<i>June 30, 2019</i>	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 237,911,178	\$ 237,911,178
Contributions and grants	-	6,651,762	6,651,762
Investment return, net	242,297	14,211,825	14,454,122
Appropriation of endowment assets for expenditure	-	(6,557,281)	(6,557,281)
Transfer of Board designated match and earnings	5,016,438	-	5,016,438
Endowment fees	-	(2,804,819)	(2,804,819)
<b>Endowment net assets, end of the year</b>	<b>\$ 5,258,735</b>	<b>\$ 249,412,665</b>	<b>\$ 254,671,400</b>

### *Underwater Endowment Funds*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. By policy, the Foundation allows for spending on underwater endowments if the gift instrument allows. When the donor gift instrument allows and a donor endowment deficit exist, they are classified as a reduction of net assets with donor restrictions. This deficit can result from unfavorable market fluctuations that occurred after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore the deficiency in net assets to the original corpus. There were no underwater endowments as of June 30, 2020 and 2019 respectively.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### *Return and Risk Objectives*

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

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

### *Strategies Employed for Achieving Objectives*

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

The asset allocation target ranges inclusive of these securities as of June 30, 2020 and 2019 is as follows:

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

The USMF endowment portfolio is constructed based on the following principles:

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

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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

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

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

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

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

**(2) Diversification:** By allocating funds to asset classes whose returns are not highly correlated over time, the USMF Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the endowment fund's assets may be invested in one fund and no more than 10% of the endowment fund's assets may be invested in one manager. The USMF Investment Committee, however, may make an exception in special circumstances.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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

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

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

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

The Board of Directors has authorized a formulaic approach as an advisory tool to determine the annual spending rate. The approach is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be between 3.5% and 4.5% of the moving average market value for the year ended June 30, 2020 and 2019, respectively. Spending rates may not violate any donor restrictions.

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

After considering the formulaic approach and other relevant inputs, an annual spending rate is established. The spending rates for both 2020 and 2019 were 4.0%. The approved spending rate for 2021 is 4.0%.

Newly created individual endowment funds, in order to have annual spendable income, must be invested for at least three months prior to the calculation date and meet minimum value requirements.

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

A request must be made to carry-over unspent appropriated funds for one year.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

### 10. Net Assets with Donor Restrictions

Net asset balances with donor restrictions of the Foundation consist of the following at:

<i>June 30,</i>	<b>2020</b>	<b>2019</b>
<b>Subject to the Foundation's spending policy and appropriation:</b>		
Investment in perpetuity (including original gift amounts of \$203,525,252 in 2020 and \$194,687,161 in 2019), with gains that once appropriated, is expendable to support:		
Program support	\$ 73,894,686	\$ 75,039,093
Student support	47,583,545	47,796,647
Faculty support	124,158,594	120,197,527
Research	5,105,810	6,215,746
Capital projects	162,464	163,652
	<b>250,905,099</b>	<b>249,412,665</b>
<b>Subject to expenditure for specific purpose:</b>		
Program support	23,722,186	20,618,435
Student support	12,690,074	14,043,776
Faculty support	1,945,228	1,864,578
Research	7,839,193	7,211,539
Capital projects	6,076,946	7,473,057
	<b>52,273,627</b>	<b>51,211,385</b>
<b>Total</b>	<b>\$ 303,178,726</b>	<b>\$ 300,624,050</b>

During the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor or by the passage of time, as follows:

	<b>2020</b>	<b>2019</b>
Program support	\$ 6,836,503	\$ 9,274,742
Student support	4,715,599	8,222,053
Faculty support	3,668,606	4,746,225
Research	1,720,995	1,590,632
Capital projects	3,131,426	524,689
<b>Total</b>	<b>\$ 20,073,129</b>	<b>\$ 24,358,341</b>

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### 11. Net Assets Without Donor Restrictions

The Foundation implemented Board-designated reserve policies as approved by the Board of Trustees to simplify and better reflect current economic realities. The following reflects the net assets for specific purposes within board-designated net assets at:

<i>June 30,</i>	<b>2020</b>	<b>2019</b>
Board-Designated Net Assets		
<i>Operating budget</i>		
Net assets were established to cover the Foundation's annual operating budget	\$ 3,475,938	\$ 3,214,206
<i>Scholarship Board-Designated fund</i>		
Scholarship match related to endowment	6,163,349	5,258,735
Other scholarship matching funds	2,592,626	1,907,037
<b>Total Board-designated net assets</b>	<b>12,231,913</b>	<b>10,379,978</b>
<b>Undesignated net assets</b>	<b>32,092,385</b>	<b>32,370,814</b>
<b>Total</b>	<b>\$ 44,324,298</b>	<b>\$ 42,750,792</b>

### 12. Description of Program and Supporting Services

The following program and supporting services are included in the statements of functional expenses:

#### *Campus Programs*

These expenses are associated with maintaining and improving the schools and units throughout UMB's campus for the day-to-day operations including university advancement, alumni activities, conferences, seminars and special events.

#### *Student and Faculty Support*

These expenses are associated with student scholarships, awards and related activities. Faculty support is to assist in the various department's ability to fund the chair of the department, professorship, fellowship and other faculty support and related expenses.

#### *Research*

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

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### *Capital Projects*

These expenses include the construction, repair and maintenance of buildings and equipment throughout the UMB campus.

### *General and Administrative*

These expenses relate to the day-to-day operation of the administrative, accounting office of the Foundation, including salary reimbursement to UMB.

### *Fundraising*

These expenses are associated with fundraising initiatives and activities throughout UMB's campus.

## **13. Transfers from USMF**

Prior to the establishment of the Foundation, 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.

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.

## **14. Split-Interest Agreements Requirements**

As required by various State regulations, the Foundation internally reserves cash and investments in the amount of \$3,418,265 and \$2,842,063 associated with annuity liabilities of \$2,202,594 and \$1,696,555 as of June 30, 2020 and 2019, respectively.

## **15. Related Party Transactions**

Foundation personnel are employees of the University of Maryland Baltimore. The University administers all payroll and fringe benefit costs. The Foundation reimburses the University for these costs on a quarterly basis, estimating the salary costs of individuals devoting effort to the Foundation. The amount reimbursed by the Foundation to the University was \$1,735,889 and \$1,482,625 for the years ended June 30, 2020 and 2019, respectively.

## **16. 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, 2020, 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.

# University of Maryland Baltimore Foundation, Inc.

## Notes to Financial Statements

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### **17. Subsequent Events**

The Foundation evaluated subsequent events through October 19, 2020, the date the financial statements were available to be issued. There were no events that required adjustments to or disclosure in the financial statements.