University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Financial Statements
Years Ended June 30, 2021 and 2020

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

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University System of Maryland Foundation, Inc. and Subsidiary

Contents

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of the University System of Maryland Foundation, Inc. and Subsidiary (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

September 15, 2021

Consolidated Financial Statements

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, (in thousands)	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 163	$ 147
Accounts receivable	173	480
Accrued interest receivable	297	297
Contributions receivable - current portion	478	1,466
Other current assets	219	108
Total current assets	1,330	2,498
Investments		
Endowment	397,904	306,343
Operating	69,294	63,092
Held for other foundations	1,628,022	1,254,366
Total investments	2,095,220	1,623,801
Other assets		
Contributions receivable, net - long term portion	4,043	5,879
Contributions receivable from remainder trusts	851	905
Angus breeding herd, trademark, logo, records, and data bank	1,744	1,789
Real and personal property, net	12,304	13,647
Other assets	471	468
Total other assets	19,413	22,688
Total assets	$ 2,115,963	$ 1,648,987
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 3,435	$ 5,375
Refundable advance	1,336	1,240
Total current liabilities	4,771	6,615
Other liabilities		
Payables under split-interest agreements	2,555	2,735
Due to other foundations and affiliates	1,628,397	1,254,821
Total other liabilities	1,630,952	1,257,556
Total liabilities	1,635,723	1,264,171
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	46,407	44,114
Designated by Board	40,035	14,782
	86,442	58,896
With donor restrictions	393,798	325,920
Total net assets	480,240	384,816
Total liabilities and net assets	$ 2,115,963	$ 1,648,987

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended June 30, (in thousands)	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total	2020 Without Donor Restrictions	2020 With Donor Restrictions	2020 Total
Revenues						
Contributions and grants	$ 22,150	$ 14,748	$ 36,898	$ 3,446	$ 30,398	$ 33,844
Investment return, net	7,340	74,446	81,786	(1,210)	2,450	1,240
Other program income	727	1	728	356	-	356
Courses and conferences	8	-	8	150	-	150
Sales and services	5,853	-	5,853	5,730	-	5,730
Change in value of split-interest agreements	-	(591)	(591)	-	204	204
Net assets released from restrictions	20,548	(20,548)	-	17,822	(17,822)	-
Total revenues	56,626	68,056	124,682	26,294	15,230	41,524
Expenses						
Program services						
Wye Herd	369	-	369	318	-	318
Academic	3,009	-	3,009	2,718	-	2,718
Scholarships	6,642	-	6,642	6,815	-	6,815
Ad-hoc projects	1,370	-	1,370	1,510	-	1,510
Research	3,205	-	3,205	2,718	-	2,718
Department support	1,953	-	1,953	3,045	-	3,045
Other programs	4,729	-	4,729	6,343	-	6,343
Total program services	21,277	-	21,277	23,467	-	23,467
Supporting services						
Management and general	5,130	-	5,130	5,435	-	5,435
Fundraising	1,978	-	1,978	2,325	-	2,325
Total supporting services	7,108	-	7,108	7,760	-	7,760
Total expenses	28,385	-	28,385	31,227	-	31,227
Change in net assets before transfers	28,241	68,056	96,297	(4,933)	15,230	10,297
Transfers to System Affiliated Foundations	(695)	(178)	(873)	(12)	-	(12)
Change in net assets	27,546	67,878	95,424	(4,945)	15,230	10,285
Net assets, beginning of year	58,896	325,920	384,816	63,841	310,690	374,531
Net assets, end of year	$ 86,442	$ 393,798	$ 480,240	$ 58,896	$ 325,920	$ 384,816

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

June 30, (in thousands)	2021	2020
Cash flows from operating activities		
Change in net assets	$ 95,424	$ 10,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized (gains) losses on investments	(67,092)	16,893
Change in investments held for other Foundations	(373,656)	(45,068)
Change in unrealized (gains) losses on investments for split interest agreements and others	(30)	216
Accretion on contribution receivable discount	(244)	(313)
Depreciation	57	51
Bad debt expense	205	26
Change in cash surrender value of life insurance	(3)	(12)
(Increase) decrease in assets:		
Accounts receivable	307	(435)
Accrued interest receivable	-	170
Contributions receivable	2,863	2,787
Other assets	(69)	165
Contributions receivable from remainder trusts	54	(105)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,940)	1,095
Refundable advance	96	(537)
Payables under split-interest agreements	(180)	(290)
Due to other foundations and affiliates	373,576	45,101
Net cash provided by operating activities	29,368	30,029
Cash flows from investing activities		
Purchases of investments	(86,845)	(113,234)
Contributions restricted for long-term investment	(4,537)	(7,608)
Proceeds from sales or distribution of investments	56,207	84,758
Proceeds from sales of long-term investment property	1,681	-
Purchases of real and personal property	(395)	(1,557)
Net cash used in investing activities	(33,889)	(37,641)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	4,537	7,608
Net cash provided by financing activities	4,537	7,608
Increase (decrease) in cash and cash equivalents	16	(4)
Cash and cash equivalents, beginning of year	147	151
Cash and cash equivalents, end of year	$ 163	$ 147
Supplemental disclosure of cash flow information		
Income taxes paid	$ 111	$ 108

See accompanying notes to consolidated financial statements.

1. Nature of Operations

The University System of Maryland Foundation, Inc. (the "Foundation" or "USMF", also known as The University of Maryland Foundation, Inc.), a separately incorporated independent Foundation, manages funds received for the benefit of the Institutions of the University System of Maryland ("USM") or community colleges and affiliated educational organizations within the State of Maryland. The Foundation also offers the affiliated foundations associated with the Institutions of the USM and the community colleges in the State of Maryland the opportunity to invest their assets in the Foundation's endowment pool. The Foundation is organized to receive, hold, invest, manage, use, dispose of, and administer property of all kinds, whether given absolutely or in trust, or by way of agency or otherwise, for the benefit of the USM or for all of the education and support activities that may be conducted by the USM.

The Foundation is comprised of two separately accounted-for divisions: the University System of Maryland Foundation Funds and the Wye Herd, as well as a wholly owned subsidiary for-profit corporation, the USMF Corporation (refer to Note 14 for a discussion on the USMF Corporation).

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements of the Foundation are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting. As described in Note 1, the Foundation is comprised of two divisions as well as a wholly owned subsidiary. The consolidated financial statements include the accounts of these entities. All significant intercompany transactions and accounts are eliminated in consolidation.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consists primarily of monies due from affiliated institutions for payments made by the Foundation on behalf of those institutions. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2021 and 2020. The Foundation's policy is to write-off all receivables that are deemed to be uncollectible. Accounts receivable are written off if reasonable collection efforts are unsuccessful.

Contributions Receivable

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of June 30, 2021 and 2020. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. The Foundation's policy is to write-off all contributions receivable that are deemed to be uncollectible.

Investments

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

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

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

Valuation of Investments

The Foundation carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the Board of Directors of the Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. 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 investment return, net in the consolidated statements of activities and changes in net assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed monthly among the individual endowment accounts on the basis of the number of units of the pool held by each individual endowment account.

See Note 3 for further details on valuation of investments.

Angus Breeding Herd, Trademark, Logo, Records, and Data Bank

Management's policy for accounting for the Angus breeding herd, trademark, logo, records, and data bank is to combine these asset groups and value them as a single group rather than individually, due to the relationship of each one to the others. These assets are related to the Wye Herd, a cattle and research facility.

Real and Personal Property

Real and personal property is carried at cost. The Foundation's policy is to charge all additions over $1,000 (in dollars) to the asset account, but to charge the cost of repairs, maintenance and minor betterments to operations in the year in which the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which are five years. Depreciation expense totaled $0.06 million for both the years ended June 30, 2021 and 2020. Asset and accumulated depreciation accounts are relieved when an asset is sold or otherwise disposed. Accumulated depreciation totaled $2.71 million and $2.65 million for the years ended June 30, 2021 and 2020, respectively. All artwork and land given to the Foundation are annually reviewed to determine if there is any impairment and to determine that the asset's book value is still reasonable given these assets are not depreciated.

Contributions of Real and Personal Property

The Foundation receives various contributions of non-cash items. It is the Foundation's policy to record those assets not intended for sale at fair market value at the date of the gift. These assets are held for investment purposes and are not depreciated.

Due to Other Foundations and Affiliates

Due to other foundations and affiliates consists of funds invested by the Foundation on behalf of other foundations and the annuities and trusts administered for other foundations. These funds are recorded on a per unit basis and managed with funds of the Foundation. The Foundation assesses the affiliated foundations an annual management fee. The fees are assessed in relation to the individual management contracts each affiliated foundation has with the Foundation and are based on the fair value of endowment and operating funds administered. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled $4.6 million and $4.2 million for the years ended June 30, 2021 and 2020, respectively, and are included in sales and services in the consolidated statements of activities and changes in net assets.

Foundation management, based on other foundations' and affiliates' requests, designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses, depending on the type of investment portfolio into which the asset is placed. The fees assessed by the Foundation are for expenses related to the operation of the Foundation such as management of the endowment, audit, and accounting functions and development as needed to assist USM institutions. Professional investment fees are paid to the investment managers prior to the distribution of income.

The amounts due to other foundations and affiliates at June 30, 2021 and 2020, were as follows (in thousands):

	2021	2020
Allegany College of Maryland Foundation	$ 17,935	$ 13,705
Alumni Association International	5,968	4,875
Bowie State University Foundation	35,680	8,291
Community College of Baltimore County Foundation	14,772	11,849
Coppin State University Development Foundation, Inc.	11,601	8,589
Frederick Community College Foundation	19,649	15,808
Frostburg State University Foundation	34,749	26,429
Hagerstown Community College Foundation	15,191	11,706
Harford Community College Foundation	16,502	11,934
Howard Community College Education Foundation	1,479	2,709
M Club	2,764	2,440
Towson University Foundation	12,127	9,583
UMB Foundation	376,778	301,099
UMCP Foundation	622,093	467,595
University of Baltimore Foundation	4,475	3,733
University System of Maryland Common Trust	436,634	354,476
Total	$ 1,628,397	$ 1,254,821

Classification of Net Assets

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

Net assets without donor restrictions

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

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

Net assets with donor restrictions

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

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

Revenue Recognition

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.

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

The Foundation reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as 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 6 for discussion of conditional promises to give and intentions).

Sales and services

The Foundation reports revenues from asset management and endowment administration services provided to higher education institutions under this revenue stream. Revenue is based on contract terms and is calculated using a basis point fees percentage of assets under management and is recognized at a point in time, when services are provided. The revenue reflects a contractual relationship between the two parties and each party receives commensurate value for services provided.

Refundable advances

The Foundation receives grants from private institutions. Revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreements are met. Funds received in advance of satisfying obligations are recorded as refundable advances in the consolidated statements of financial position. As of June 30, 2021 and 2020, the Foundation has refundable advances of $1.34 million and $1.24 million, respectively.

Split-Interest Agreements

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

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

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

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to the beneficiary under the terms of the agreements. The estimated annuity liabilities expected terms are based on the Internal Revenue Service (IRS) actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under the Internal Revenue Code (IRC) Section 7520 and range from 0.2% to 14.9%.

Investment Return

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

The Foundation's endowment pool reported an investment return of 27.21% and 0.90% for the years ended June 30, 2021 and 2020, respectively. The Foundation's operating pool reported an investment return of 0.50% and 2.79% for the years ended June 30, 2021 and 2020, respectively. The investment returns are calculated using market values reported within the financial statements which include estimates as of reporting dates for private investments without a readily determinable fair value or those investments using NAV as a practical expedient. The investment returns are net of all external investment expenses such as fees charged by underlying fee managers but are reported gross of campus-specific fee arrangements with the Foundation.

Functional Allocation of Expenses

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

Estimates

The preparation of the consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant items subject to such estimates and assumptions include the fair value of non-traditional investments and the net realizable value of the accounts and contributions receivable. Actual results could differ from those estimates.

Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the years ended June 30, 2021 and 2020, therefore, no provision for income taxes has been made.

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

For the years ended June 30, 2021 and 2020, the USMF Corporation generated an immaterial amount of taxable income and a corresponding tax liability was incurred. Income tax expenses for the years ended June 30, 2021 and 2020 were immaterial. The USMF Corporation's liability was considered immaterial and therefore was not recorded in the consolidated financial statements.

Authoritative guidance on accounting for uncertainty in income taxes defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits, and also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2021 and 2020 for uncertain tax positions. The Foundation and the USMF Corporation are no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2018.

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 uncertainty and risk with respect to the Foundation, its performance, and its financial results.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. 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, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (the Act) was passed, which include $900 billion in stimulus relief as a result of the COVID-19 pandemic.

The Foundation's management has examined the provisions of these Acts as of June 30, 2021 and has chosen not to avail itself of any of the provisions under these Acts. Management will assess any future aid packages to determine its impact on the Foundation.

Reclassifications

Certain amounts presented in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

Adoption of New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU assists in the determination of the nature of the transaction which will then govern the expense recognition methodology and timing of the transaction. The ASU is effective for contributions made by the Foundation in periods beginning after December 15, 2019. The Foundation adopted this update in 2021 under the modified prospective basis. The adoption of this update did not materially impact grants expense in the consolidated 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*. The ASU is effective for the Foundation's consolidated financial statements for fiscal years beginning after December 15, 2019. The adoption of the new standard updated the disclosure of fair value investments in Note 3. The adoption of this guidance resulted in the following changes : 1) the level 3 investment roll-forward was removed and replaced with a disclosure of level 3 purchases and sales, 2) the disclosure of the policy for timing of transfer between levels was removed, 3) the disclosure of the valuation process for level 3 fair value measures was removed.

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

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This standard relates to leasing for both lessees and lessors. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This standard has been subsequently updated by ASUs 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2019-10 and 2020-05, the last of which deferred the effective date for private companies and certain not-for profit entities to fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

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

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The ASU requires that a nonprofit present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets. Information that shows the contributed nonfinancial assets disaggregated by category will be required to be disclosed. In addition, the ASU requires that for each type of contributed nonfinancial asset the following will be disclosed: (a) policy (if any) on liquidating rather than using the contributed nonfinancial assets, (b) qualitative considerations on whether the contributed nonfinancial assets were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to contributed nonfinancial assets, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the nonprofit is restricted by the donor from selling or utilizing the contributed nonfinancial assets. The amendments in the ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption of the ASU is permitted. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

3. Fair Value Measurements

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

> Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category include listed equities and listed mutual funds.
>
> Level 2 - Pricing inputs include market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. Investments which are generally included in this category include less liquid and restricted equity securities and fixed income securities.
>
> Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in private risk assets and investment funds as well as offshore hedge funds.

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

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

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

The following tables present the financial investments held by funds in which USMF invests. The following investments are carried at fair value as of June 30, 2021 and 2020, and are presented by the fair value hierarchy defined above (in thousands):

	June 30, 2021				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Investments
Money-market funds and cash equivalents (1)	$ 76,435	$ -	$ -	$ -	$ 76,435
ETF's and mutual funds (2)	308,146	-	-	-	308,146
Common stock (2)	20,930	-	-	-	20,930
Separately managed accounts (3)	-	334,252	81,953	-	416,205
Investments reported at NAV (4)	-	-	-	1,273,504	1,273,504
Total investments	$ 405,511	$ 334,252	$ 81,953	$ 1,273,504	$ 2,095,220

	June 30, 2020				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Investments
Money-market funds and cash equivalents (1)	$ 94,251	$ -	$ -	$ -	$ 94,251
ETF's and mutual funds (2)	263,363	-	-	-	263,363
Common stock (2)	13,365	-	-	-	13,365
Separately managed accounts (3)	-	253,808	89,066	-	342,874
Investments reported at NAV (4)	-	-	-	909,948	909,948
Total investments	$ 370,979	$ 253,808	$ 89,066	$ 909,948	$ 1,623,801

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

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

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

(3) Separately managed accounts represent vehicles that are managed by external investment managers that trade and hold securities on the Foundation's behalf. The investments held in these separately managed accounts are largely publicly traded common stock and fixed income securities that are easily converted into cash, however the vehicle through which the Foundation invests 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 is therefore classified as Level 3.

(4) 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 as further discussed within the footnotes.

Due to the limited availability of valuation data as of the Foundation's year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. Management adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, and redemptions or returns of capital during the gap period. Management will also adjust for known performance adjustments for private investments that hold publicly traded securities. Performance adjustments ranged from 0.38% to 5.95% for those investments on a one-month lag. No performance adjustments are made to investments on a quarter lag given the unobservability of investment performance at the time of report issuance.

The Foundation believes the carrying value of 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 the Foundation's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets. Management performs a retroactive review of its fair value estimates by comparing to actual year-end statements received subsequent to year-end.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. The Foundation's private 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.

Total sales of the Level 3 investments were $20.0 million and $9.9 million for the years ended June 30, 2021 and 2020, respectively. There were no purchases in both fiscal years ended June 30, 2021 and 2020.

The following table is a breakout of investments reported at NAV as defined above (in thousands):

Investment Strategy	6/30/21 Fair Value	6/30/20 Fair Value	Unfunded Commitments	Term
Intermediate assets	$ 175,036	$ 138,340	$ 78,057	5-10 years
Public equity	328,941	176,458	-	Weekly-3 years
Liquid credit	68,712	60,400	-	Monthly-6 months
Diversifying strategies	82,368	66,309	-	3 months-5 years
Private risk assets	618,447	468,441	259,181	10-15 years
	$ 1,273,504	$ 909,948	$ 337,238	

Of the fair value of $2.1 and $1.6 billion at June 30, 2021 and 2020, $1.92 billion and $1.46 billion, respectively, is invested in the endowment pool and $173.5 million and $159.7 million, respectively, is invested in the operating portfolio. There are $0.3 million in investments not invested with the pools at both June 30, 2021 and 2020.

The Foundation committed $1.472 billion and $1.362 billion to private capital as of June 30, 2021 and 2020, respectively, of which $1.135 billion and $1.034 billion has been called as of June 30, 2021 and 2020, respectively. These commitments are to be funded through transfers from other Level 3 investments and new cash.

4. Concentration of Credit Risk

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

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

5. Contributions Receivable

As of June 30, 2021, and 2020, the Foundation's contributors had unconditionally promised to give approximately $4.9 million and $8.0 million, respectively.

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

		2021		2020
Contribution receivable	$	4,942	$	8,010
Less: unamortized discount		(421)		(665)
Net contributions receivable	$	4,521	$	7,345

Amounts due in:

		2021		2020
Within one year	$	478	$	1,466
One to five years		4,464		6,544
Total	$	4,942	$	8,010

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

	1-5 Years
2021	4.25%
2020	4.25%

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately $0.85 million and $0.91 million as of June 30, 2021 and 2020, respectively. The difference between the fair value of contributions receivable and the carrying value is deemed to be immaterial for financial statement purposes.

6. Conditional Promises to Give and Intentions

To the extent the following items are conditional promises to give, they are not recorded in the Foundation's financial statements.

Life Insurance Policies

The Foundation has been named as the beneficiary of various life insurance policies. These policies had face amounts of approximately $2.00 million at both June 30, 2021 and 2020 and these amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give. In addition, the Foundation is owner and beneficiary of policies with face amounts of $635,000 (in dollars) and $635,000 (in dollars) and cash surrender values of approximately $296,000 (in dollars) and $293,000 (in dollars) at June 30, 2021 and 2020, respectively, and are included in other assets in the consolidated statements of financial position.

Bequests and Intentions

Various contributors have informed the Foundation of their intentions to make contributions at some time in the future. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended. These amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give.

7. Endowments

The Foundation's endowment consists of approximately 1,573 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies donor-restricted net assets as (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the endowment fund
2. The purposes of the Foundation and the endowment fund
3. The general economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The Foundation's endowment funds consist of the following as of June 30, 2021 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	$ 35,063	$ -	$ 35,063
Funds treated as endowment funds	12,214	-	12,214
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	209,738	209,738
Accumulated investment gains	-	130,768	130,768
	$ 47,277	$ 340,506	$ 387,783

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

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	$ 11,717	$ -	$ 11,717
Funds treated as endowment funds	10,862	-	10,862
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	204,005	204,005
Accumulated investment gains	-	70,104	70,104
	$ 22,579	$ 274,109	$ 296,688

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

2021	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	$ 22,579	$ 274,109	$ 296,688
Investment return, net	8,691	67,133	75,824
Contributions	20,197	14,564	34,761
Appropriation for spendable	-	(9,071)	(9,071)
Appropriation of endowment assets for expenditure	(3,495)	(6,051)	(9,546)
Transfers to System affiliated Foundations	(695)	(178)	(873)
Endowment net assets, end of year	$ 47,277	$ 340,506	$ 387,783

2020		Without donor restrictions		With donor restrictions		Total
Endowment net assets, beginning of the year	$	23,445	$	258,927	$	282,372
Investment return, net		(39)		787		748
Contributions		426		22,659		23,085
Appropriation for spendable		-		(8,050)		(8,050)
Appropriation of endowment assets for expenditure		(1,241)		(214)		(1,455)
Transfers to System affiliated Foundations		(12)		-		(12)
Endowment net assets, end of year	$	22,579	$	274,109	$	296,688

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. This deficit can result from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. The Foundation allows for spending on underwater funds. Future market gains will be used to restore this deficiency. There were no deficits of this nature that are reported in net assets with donor restrictions as of both June 30, 2021 and 2020.

Return and Risk Return Objectives

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

Strategies Employed for Achieving Objectives

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (primarily liquid investments), private risk assets (illiquid portion of the portfolio), intermediate assets (private assets with shorter, finite illiquidity periods), and safe assets (cash, U.S. Government securities and money market funds). 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, 2021 is as follows:

Asset Class	Policy Target	Minimum	Maximum
Safe Assets	3%	0%	25%
Intermediate Assets	15%	5%	25%
Public Risk Assets	52%	25%	75%
Private Risk Assets	30%	10%	75%

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

Asset Class	Policy Target	Minimum	Maximum
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 asset allocation target ranges inclusive of these securities as of June 30, 2021 and 2020 is as follows:

The endowment portfolio is constructed based on the following principles:

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

   a) Safe Assets are defined as investments with little-to-no principal risk. These assets are cash, U.S. Government securities and money 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.

   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.

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

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

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

Spending Policy and Relationship of Spending Policy to Investment Objectives

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

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

The Board of Directors has authorized a formulaic approach as an advisory tool to determine the annual spending rate. The approach is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be between 3.5% and 4.5% of the moving average market value for the years ended June 30, 2021 and 2020, 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 fiscal years 2021 and 2020 were 4.0%. The approved spending rate for fiscal year 2022 is 4.0%.

Newly created individual endowment funds, in order to have annual spendable income, must be invested for at least one year prior to the calculation date and have a minimum value of $10,000. In establishing this policy, the Spending Policy Committee considered the long-term expected return on the endowment and its goal of preserving principal. Accordingly, over the long term, USMF expects the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

The Board approved a blanket carry-over for one year of unspent appropriated funds as of June 30. A special request must be made to carry-over unspent appropriated funds from more than one prior year into current year.

8. Net Assets Activities

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

June 30,	2021	2020
Subject to expenditures for specified purpose:		
Academic programs	$ 26,659	$ 26,497
Student support	5,353	5,156
University advancement	821	957
Research	20,037	18,910
Faculty support	422	291
	53,292	51,811
Endowments:		
Subject to the Foundation's endowment spending policy:		
Academic programs	66,974	55,510
Student support	186,454	147,741
University advancement	23,646	19,148
Research	3,535	2,878
Faculty support	59,897	48,832
Total endowments:	340,506	274,109
Total net assets with donor restrictions	$ 393,798	$ 325,920

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

June 30,	2021	2020
Satisfaction of purpose restrictions:		
Academic programs	$ 5,236	$ 3,185
Student support	2,282	2,870
University advancement	433	947
Research	3,127	2,410
Faculty support	399	360
Total satisfaction of purpose restrictions	11,477	9,772
Restricted-purpose spending rate distributions and appropriations:		
Academic programs	1,931	1,180
Student support	5,244	6,337
University advancement	21	32
Research	48	76
Faculty support	1,827	425
Total restricted-purpose spending rate distributions and appropriations	9,071	8,050
Total net assets released from donor restrictions	$ 20,548	$ 17,822

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

June 30,	2021	2020
Academic programs	$ 1,344	$ 1,182
Scholarships	2,826	2,240
Department support	6,136	3,540
University support	22,553	3,102
Maryland Center for Performing Arts	1,939	1,572
Others	5,237	3,146
Total Board-designated net assets	$ 40,035	$ 14,782

9. Liquidity and Availability

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

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

June 30,		2021		2020
Cash and cash equivalents	$	163	$	147
Account receivable		173		480
Accrued interest receivable		297		297
Contributions receivable		478		1,466
Operating investments (Level 1 and 2)		68,827		62,783
Total financial assets available within one year		69,938		65,173
Less:				
Amounts unavailable for general expenditures within one year, due to:				
Board-designated		(40,035)		(14,782)
Availability of assets within one year	$	29,903	$	50,391

10. Retirement Plans

The Foundation maintains a defined contribution plan for certain personnel provided by TIAA and CREF. The Foundation contributes 7.25% of the employee's compensation to a 401(a) plan. Effective July 1, 2005 the Foundation revised its pension plan so that employees are fully and immediately vested. In addition, eligible employees are entitled to make voluntary contributions to a 403(b) plan. The Foundation established a 457(b) plan for top executives in 2002. Total retirement plan expense for the years ended June 30, 2021 and 2020 was approximately $252,000 (in dollars) and $237,000 (in dollars), respectively.

11. Contributed Services and Office Space

Several unpaid volunteers contribute their time to the Foundation. In addition, the Foundation's offices are located in the USM Administration building under a quid pro quo arrangement. The Foundation's President is also the USM Vice Chancellor for Advancement and USM provides space and computer equipment in exchange. The value of these services has not been included in the financial statements as these services are overall immaterial to the consolidated financial statements.

12. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately $2.56 million and $2.74 million as of June 30, 2021 and 2020, respectively.

13. Related Party Transactions

Members of the Board of Directors of the Foundation are affiliated with organizations which manage or invest a portion of the Foundation's assets. Members of the Board of Directors do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those directors are associated.

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

14. USMF Corporation

In November 2004, the Foundation established the USMF Corporation, a for-profit subsidiary, for the purpose of holding investment assets that potentially generate unrelated business income subject to federal and state income tax. At June 30, 2021 and 2020, this corporation held $3.32 million and $3.39 million in net assets, respectively, and has a net operating income/(loss) of $0.27 million and $(1.45) million for the years ended June 30, 2021 and 2020, respectively, which are reflected in the consolidated financial statements.

15. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, certain expenses require allocation on a reasonable basis that is consistently applied. The personnel expenses are allocated on the basis of estimates of time and effort. All other costs directly charged. The following are functional expenses for the years ended June 30, 2021 and 2020:

- Wye Herd - This program is used to support all activities related to the Wye Herd.
- Academic - This program is used to provide supplemental educational experiences for students studying in the different departments. This program covers costs related to on and off campus learning opportunities.
- Scholarships - This program assists students who are studying in all fields with tuition, books and room and board expenses.
- Ad-hoc Projects - This program is designed to enhance department programs across the campuses by assisting in the funding of speakers, field trips and other out of the classroom experiences.
- Research - This program is designed to assist departments with costs related to expanding research in many academic fields. Costs such as lab equipment, materials and computer programs are included in this area.

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

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

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

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

Year ended June 30, 2021 (in thousands)	Program Services										
	Wye Herd	Academic	Scholarships	Ad-hoc Projects	Research	Department Support	Other Programs	Total Program Services	Management and General	Fundraising	Total Expenses
Transfers to USMF	$ -	$ 1,914	$ 654	$ 269	$ 887	$ 1,433	$ 2,173	$ 7,330	$ 591	$ 1,553	$ 9,474
Student support	-	747	5,901	237	12	270	949	8,116	177	-	8,293
Personnel	76	-	-	171	59	54	48	408	2,291	20	2,719
Outside services	177	29	65	161	604	111	1,029	2,176	1,034	201	3,411
Research and special projects	-	137	-	138	1,282	2	87	1,646	3	-	1,649
Public relations and promotions	-	19	2	7	31	17	61	137	89	(13)	213
Educational programs	32	28	6	105	144	23	151	489	52	-	541
Equipment and software rental/ maintenance	27	34	12	74	97	6	127	377	189	5	571
Travel		4	1	-	5	16	7	33	10	-	43
Other expenses	57	97	1	208	84	21	97	565	694	212	1,471
Total expenses	$ 369	$ 3,009	$ 6,642	$ 1,370	$ 3,205	$ 1,953	$ 4,729	$ 21,277	$ 5,130	$ 1,978	$ 28,385

Year ended June 30, 2020 (in thousands)	Program Services										
	Wye Herd	Academic	Scholarships	Ad-hoc Projects	Research	Department Support	Other Programs	Total Program Services	Management and General	Fundraising	Total Expenses
Transfers to USMF	$ -	$ 1,668	$ 618	$ 420	$ 811	$ 2,208	$ 2,600	$ 8,325	$ 387	$ 1,478	$ 10,190
Student support	-	267	5,904	12	6	154	1,277	7,620	102	-	7,722
Personnel	54	-	-	217	-	82	1	354	2,390	161	2,905
Outside services	175	66	141	209	198	302	952	2,043	598	408	3,049
Research and special projects	-	188	-	26	1,343	-	180	1,737	-	-	1,737
Public relations and promotions	-	298	72	22	19	118	487	1,016	273	162	1,451
Educational programs	29	75	32	285	156	58	163	798	14	-	812
Equipment and software rental/ maintenance	25	31	2	47	72	39	187	403	178	84	665
Travel	-	65	44	13	92	67	115	396	62	1	459
Other expenses	35	60	2	259	21	17	381	775	1,431	31	2,237
Total expenses	$ 318	$ 2,718	$ 6,815	$ 1,510	$ 2,718	$ 3,045	$ 6,343	$ 23,467	$ 5,435	$ 2,325	$ 31,227

16. Subsequent Events

Subsequent events have been evaluated by management through September 15, 2021, the date the consolidated financial statements were issued. There were no events noted that required adjustment to or disclosure in these consolidated financial statements.