

**The University of Maryland  
College Park Foundation, Inc.**  
Consolidated Financial Statements  
June 30, 2019 and 2018

# The University of Maryland College Park Foundation, Inc.

## Index

June 30, 2019 and 2018

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## Report of Independent Auditors

To the Board of Trustees of the  
University of Maryland College Park Foundation, Inc. and its Subsidiary

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

### ***Management's Responsibility for the Consolidated 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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

### ***Opinion***

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

*PricewaterhouseCoopers LLP*

October 29, 2019

**The University of Maryland College Park Foundation, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2019 and 2018**

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets		
Cash and cash equivalents	\$ 48,401,712	\$ 38,362,709
Accounts receivable	67,162	57,064
Accrued interest receivable	-	667
Contributions receivable, current portion	110,416,190	78,941,541
Short term investments	29,244,232	27,651,733
Other assets	219,172	51,385
Total current assets	<u>188,348,468</u>	<u>145,065,099</u>
Investments		
Endowment	395,720,453	355,271,571
Operating	23,247,993	22,616,022
Investment in Proton LLC	3,750,000	3,750,000
Funds held for others	9,353,376	9,136,029
Other investments	5,900,761	5,831,167
Total investments	<u>437,972,583</u>	<u>396,604,789</u>
Other assets		
Contributions receivable, long-term portion	79,168,703	84,708,470
Property and equipment, net	28,215,079	27,953,632
Leased real estate under capital leases, net	3,466,357	3,552,472
Other receivables-long term	546,910	564,154
Total other assets	<u>111,397,049</u>	<u>116,778,728</u>
Total assets	<u>\$ 737,718,100</u>	<u>\$ 658,448,616</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,842,302	\$ 1,437,728
Deferred income	1,186,032	1,337,531
Total current liabilities	<u>8,028,334</u>	<u>2,775,259</u>
Other liabilities		
Funds held for others	9,353,376	9,136,013
Capital lease liability	3,466,357	3,552,472
Annuities payable	2,313,632	2,239,812
Total other liabilities	<u>15,133,365</u>	<u>14,928,297</u>
Total liabilities	<u>23,161,699</u>	<u>17,703,556</u>
Net assets without donor restrictions	5,019,067	4,703,622
Net assets with donor restrictions	709,537,334	636,041,438
Total net assets	<u>714,556,401</u>	<u>640,745,060</u>
Total liabilities and net assets	<u>\$ 737,718,100</u>	<u>\$ 658,448,616</u>

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

**The University of Maryland College Park Foundation, Inc.**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2019**

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	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues</b>			
Contributions	\$ -	\$ 121,804,658	\$ 121,804,658
Investment income, net of fees	6,796,501	(1,049,401)	5,747,100
Other program income	58,604	-	58,604
Sales and services	536,322	-	536,322
Other income	1,886,785	180,343	2,067,128
Courses and conferences	5,445	-	5,445
Realized and unrealized gains on investments, net	867,394	19,653,416	20,520,810
Change in valuation of split-interest agreements	(1,209)	(190,760)	(191,969)
Net assets released from restrictions	66,902,360	(66,902,360)	-
Total revenues	<u>77,052,202</u>	<u>73,495,896</u>	<u>150,548,098</u>
<b>Expenses</b>			
Program	73,241,788	-	73,241,788
General and administrative	3,340,180	-	3,340,180
Fundraising	154,789	-	154,789
Total expenses	<u>76,736,757</u>	<u>-</u>	<u>76,736,757</u>
Change in net assets	315,445	73,495,896	73,811,341
<b>Net assets</b>			
Beginning of year	<u>4,703,622</u>	<u>636,041,438</u>	<u>640,745,060</u>
End of year	<u>\$ 5,019,067</u>	<u>\$ 709,537,334</u>	<u>\$ 714,556,401</u>

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

**The University of Maryland College Park Foundation, Inc.**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2018**

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	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues</b>			
Contributions	\$ 12,300	\$ 168,720,534	\$ 168,732,834
Investment income, net of fees	5,233,260	(1,517,331)	3,715,929
Other program income	104,157	-	104,157
Sales and services	648,703	-	648,703
Other income	1,859,637	-	1,859,637
Courses and conferences	8,101	-	8,101
Realized and unrealized gains on investments, net	(2,522,586)	25,726,283	23,203,697
Change in valuation of split-interest agreements	(6,995)	(593,256)	(600,251)
Net assets released from restrictions	62,222,764	(62,222,764)	-
Total revenues	<u>67,559,341</u>	<u>130,113,466</u>	<u>197,672,807</u>
<b>Expenses</b>			
Program	68,552,350	-	68,552,350
General and administrative	3,118,506	-	3,118,506
Fundraising	210,754	-	210,754
Total expenses	<u>71,881,610</u>	<u>-</u>	<u>71,881,610</u>
Change in net assets	(4,322,269)	130,113,466	125,791,197
<b>Net assets</b>			
Beginning of year	<u>9,025,891</u>	<u>505,927,972</u>	<u>514,953,863</u>
End of year	<u>\$ 4,703,622</u>	<u>\$ 636,041,438</u>	<u>\$ 640,745,060</u>

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

**The University of Maryland College Park Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 73,811,341	\$ 125,791,196
Adjustment to reconcile change in net assets to cash and cash equivalents provided by operating activities		
Net realized and unrealized (gains) losses on investments	(20,520,810)	(23,203,697)
Depreciation	297,523	411,663
Decrease (increase) in accounts receivable	(10,098)	(50,339)
Change in valuation of split-interest agreements	191,969	600,251
Increase (decrease) in deferred income	(151,499)	113,037
Decrease (increase) in accrued interest receivable	667	423,097
Decrease (increase) in contributions receivable	(25,934,882)	(75,248,195)
Decrease in other assets	(167,787)	1,027,995
(Decrease) increase in other receivables-long term	17,244	(14,378)
(Decrease) increase in accounts payable and accrued expenses	5,404,590	(9,070,838)
Contributions restricted for long-term investment	(47,889,943)	(98,606,032)
Net cash and cash equivalents (used)/provided by operating activities	<u>(14,951,685)</u>	<u>(77,826,240)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(34,678,467)	(21,931,547)
Sales of investments	13,098,855	6,986,637
Purchase of short term investments	(834,493)	-
Purchase of property and equipment	(472,855)	(11,165,299)
Net cash and cash equivalents used in investing activities	<u>(22,886,960)</u>	<u>(26,110,209)</u>
<b>Cash flows from financing activities</b>		
Increase (decrease) in annuities payable	73,820	(352,873)
Capital Lease principal payments	(86,115)	(83,607)
Contributions restricted for long-term investment	47,889,943	98,606,032
Net cash and cash equivalents provided by financing activities	<u>47,877,648</u>	<u>98,169,552</u>
Net increase/(decrease) in cash and cash equivalents	<u>10,039,003</u>	<u>(5,766,897)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>38,362,709</u>	<u>44,129,606</u>
End of year	<u>\$ 48,401,712</u>	<u>\$ 38,362,709</u>

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

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

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#### 1. Nature of Operations

The University of Maryland College Park Foundation, Inc. (the "Foundation" or "UMCPF"), an independent foundation incorporated in 1999, manages funds received for the benefit of the University of Maryland College Park (the "University" or "UMCP").

In December 2008, the Foundation organized a limited liability company in the name of UMCPF Services, LLC ("the LLC"). The LLC is managed solely by the Foundation. The purposes for which the LLC was formed are (i) to operate and manage businesses, (ii) to provide transportation and other services that are related to such operation and management, and (iii) to conduct any other business, operation, or activity deemed proper by the Foundation, and for any purpose as permitted by Section 4A-201 of the Maryland Limited Liability Company Act.

In June 2010, the Foundation organized a limited liability company in the name of UMCPF Property I, LLC ("the Property I LLC") to facilitate real estate investment activities related to "The Varsity" development project. The Varsity project was completed in FY 2012 and Foundation management has kept this entity active for future real estate investment activities. The Property I LLC is managed solely by the Foundation. The purposes for which the Property I LLC was formed are to acquire, own, hold, operate and sell land and improvements and any lawful business activities deemed proper by the Foundation, and for any purpose as permitted by Section 4A-201 of the Maryland Limited Liability Company Act.

In September 2013, the Foundation organized a limited liability company in the name of UMCPF Property II, LLC ("the Property II LLC") to facilitate the purchase of an office building located at 4603 Calvert Road, College Park, MD to provide office space for Foundation staff. The Property II LLC is managed solely by the Foundation. The purposes for which the Property II LLC was formed are to acquire, own, hold, operate and sell land and improvements and any lawful business activities deemed proper by the Foundation, and for any purpose as permitted by Section 4A-201 of the Maryland Limited Liability Company Act.

In March 2014, the Foundation organized a limited liability company in the name of UMCPF Property III, LLC ("the Property III LLC") to facilitate the purchase of land to be developed into a hotel and conference center near the main entrance of UMCP. The Property III LLC is managed solely by the Foundation. The purposes for which the Property III LLC was formed are to lease, acquire, own, hold, develop, sell, manage and operate certain land and improvements located on U.S. Route 1 near Paint Branch Parkway in College Park, Prince George's County, Maryland and to carry on any and all lawful activities with all general powers available to Maryland limited liability companies.

In December 2014, the Foundation organized three (3) limited liability companies with the names; UMCPF Property IV-A, LLC ("the Property IV-A LLC"), UMCPF Property IV-B, LLC ("the Property IV-B LLC"), UMCPF Property IV-C, LLC ("the Property IV-C LLC"), to facilitate the purchase of commercial real estate property located in downtown College Park. All three (3) of the above named LLC entities are managed solely by the Foundation. The purposes for which these 3 Property LLC entities were formed was to lease, acquire, own, hold, develop, sell, manage and operate certain land and improvements located on Knox Road, Lehigh Road and Baltimore Avenue (U.S. Route 1) in College Park, Prince George's County, Maryland and to carry on any and all lawful activities with all general powers available to Maryland limited liability companies.



# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

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In December 2014, the Foundation organized a limited liability company with the name UMCPF Property V, LLC (“the Property V LLC”) to facilitate the purchase of real estate and improvements located in downtown College Park. The Property V LLC entity was formed to lease, acquire, own, hold, develop, sell, manage and operate certain land and improvements located at 7200 and 7150 Baltimore Avenue (U.S. Route 1) in College Park, Prince George’s County, Maryland and to carry on any and all lawful activities with all general powers available to Maryland limited liability companies.

In September 2014, the Foundation organized a limited liability company with the name UMCPF Property VI, LLC (“the Property VI LLC”) to facilitate the purchase of real estate located in College Park adjacent to university property. The Property VI LLC entity was formed to lease, acquire, own, hold, develop, sell, manage and operate certain land and improvements located at 4600 Norwich Road in College Park, Prince George’s County, Maryland and to carry on any and all lawful activities with all general powers available to Maryland limited liability companies.

In September 2015, the Foundation organized a limited liability company with the name UMCPF Property VII, LLC (“the Property VII LLC”) to facilitate the re-development of commercial real estate in downtown College Park. The purpose of the Company is to lease, acquire, own, hold, develop, sell, manage and operate certain land and improvements located at 7416 Baltimore Avenue in College Park, Prince George’s County, Maryland and to carry on any and all other lawful activities with all general powers available to Maryland limited liability companies.

The limited liability companies previously established above (collectively “The LLCs”) were restructured and folded into a single LLC as described below:

On January 20, 2017 the Terrapin Development Company, LLC (TDC) was formed as a limited liability company under the laws of the State of Maryland with the Foundation being the sole manager and sole member. On July 1, 2017 the Operating Agreement was amended to admit the University of Maryland, College Park (UMCP) as a class A member. This Operating Agreement amendment effectively transferred \$2 million in cash and approximately \$28.5 million of the Foundation’s tenant deposits, land, buildings and capital lease assets to TDC, as part of a strategic real estate development plan created in cooperation with the University. UMCP plans to eventually contribute 28.5 acres of property to TDC in the future as market conditions warrant; however, UMCP had not contributed any real property to TDC as of June 30, 2019.

TDC’s capital structure consists of real estate assets and cash contributed by both the Foundation and the planned contribution of property by the University. TDC’s Board of Directors consists of 5 members appointed by the Foundation and 4 members appointed by the University. Effective July 1, 2017, the day-to-day operations and property management of the aforementioned real estate assets formerly held by UMCPF are being managed by an independent staff selected by and reporting directly to TDC’s Board of Directors. Each member’s interest in the company is based on the fair market value of each member’s contribution.

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

### **Basis of Consolidation and Presentation**

Subsidiaries are all entities over which the Foundation has the power to govern the financial and operating policies generally accompanied by more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Foundation, and de-consolidated from the date that control ceases. Entities acquired or disposed of during the period

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

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are included in the consolidated financial statements from the date of acquisition up to the date of disposal.

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. As described in Note 1, the consolidated financial statements include the accounts of the Foundation and the applicable subsidiaries, after elimination of all significant intercompany accounts and transactions.

#### **Cash and Cash Equivalents**

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

#### **Pledges Receivable**

Unconditional promises to give with payments due in future periods are reported as donor restricted support when the funds are pledged. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the present value 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.

#### **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 University System of Maryland Foundation's ("USMF") investment manager under the general oversight of the Board of Trustees of the UMCP 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 University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

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The change in net unrealized gains or losses on investment securities is reflected in the Consolidated Statements of Activities and Changes in Net Assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed monthly among the individual endowment funds 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.

#### **Deferred Revenue**

Deferred revenue represents revenues collected but not earned as of June 30. This is primarily composed of revenue for grants paid upfront and before the work and final reports have been submitted to the grantors. Revenue is only recognized as expenses are disbursed and the unspent amounts are recorded as deferred revenue. UMCPF recorded deferred revenue of \$1,186,032 and \$1,337,531 for the years ended June 30, 2019 and 2018, respectively.

#### **Funds Held for Others**

Funds held for others consists of funds held by the Foundation on behalf of other individuals, entities or institutions. These funds may be held in separate accounts or commingled and managed in the endowment pool of the Foundation as agreed upon with the owner(s) of the asset(s).

In January 2015 UMCPF signed a Funds Management Agreement with the trustee of a Charitable Remainder Unitrust whose ultimate beneficiary is UMCPF. In August of 2016, the Trustee of the Unitrust transferred \$9 million to UMCPF to be held and invested per the terms of the Funds Management Agreement. These Unitrust funds were the only funds held for others by UMCPF as of June 30, 2019 and June 30, 2018.

The value of funds held for others by UMCPF at June 30, 2019 and June 30, 2018 was \$9,353,376 and \$9,136,029, respectively. The amount held for others in fiscal years 2019 and 2018 consisted of marketable securities held in an investment account for the Charitable Remainder Unitrust discussed in the above paragraph.

#### **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 the trustee. Where the Foundation is trustee, the estimated fair value is recognized as an asset and as contributions 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 change in valuation of split-interest agreements was (\$191,969) and (\$600,250) for fiscal years ended June 30, 2019 and 2018, respectively.

**The University of Maryland College Park Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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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 annuity liabilities expected terms are based on IRA actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under IRC Section 75206(a) and ranged from 1.2% to 6.2%.

The total market value of split-interest agreements held by the custodian of such investments was \$5,296,761 and \$4,857,167 for fiscal years ended June 30, 2019 and 2018, respectively.

The total amounts payable related to split-interest agreements at June 30, 2019 and 2018 were \$2,313,632 and \$2,239,812, respectively.

**Property**

Property and equipment are stated at cost, except for contributions of property and equipment for which it is recorded at fair value based on valuations performed. Equipment purchased by the University of Maryland College Park Foundation, Inc. becomes the property of the University of Maryland. Equipment purchased by the University of Maryland College Park Foundation, Inc. becomes the property of the University of Maryland. Capital equipment of \$1,000 and over are reported to the University for inventory control purposes.

	<b>2019</b>	<b>2018</b>
Land	\$ 11,860,144	\$ 11,860,144
Buildings and improvements	17,310,820	16,751,850
Real Estate under Capital Lease	3,466,357	3,552,472
Artwork	100,000	100,000
	<u>32,737,321</u>	<u>32,264,466</u>
Less: Accumulated depreciation	(1,055,885)	(758,362)
Property (net) - Grand Total	<u>\$ 31,681,436</u>	<u>\$ 31,506,104</u>

Real estate investments are being depreciated using the straight-line method over the assets' estimated useful lives once construction is substantially completed and the assets are placed in service. The estimated useful lives are as follows:

Building	39 years
Capital Lease asset	30 years
Land Improvements	15 years

**Capital Lease Obligation**

In fiscal year 2016, UMCPF entered into a thirty-year (30) lease of commercial real estate located on Baltimore Avenue (U.S. Route 1) in downtown College Park to facilitate the development of a mixed use space in cooperation with the University and a private food service operator. The Foundation paid for renovations that restored the space to operating condition and then sub-leased the space to the private food service operator as part of the University and Foundation's strategic plans to improve the quality of services and amenities available to the students, faculty and staff of the University and the City of College Park. Future minimum lease payments are as follows:

**The University of Maryland College Park Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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<b>Year ending June 30,</b>	
2020	221,228
2021	227,865
2022	234,701
2023	241,742
2024	248,994
Thereafter	<u>7,471,134</u>
Total minimum lease payments	<u>\$8,645,664</u>

UMCPF recorded straight line depreciation expense of \$297,522.68 and \$411,663 for the years ended June 30, 2019 and 2018, respectively.

**Investment Income**

The Foundation investment income net of investment manager fees. The following schedule reflects the gains and fees for the years ending June 30, 2019 and 2018.

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2019</b>			
Investment income gross of fees	\$ 6,796,501	\$ 4,764,264	\$ 11,560,765
Fees	<u>0</u>	<u>(5,813,665)</u>	<u>(5,813,665)</u>
Investment income, net of fees as recorded in the consolidated statement of activities	<u>\$ 6,796,501</u>	<u>\$ (1,049,401)</u>	<u>\$ 5,747,100</u>
<b>2018</b>			
Investment income gross of fees	\$ 5,265,856	\$ 3,688,619	\$ 8,954,475
Fees	<u>(34,208)</u>	<u>(5,204,338)</u>	<u>(5,238,546)</u>
Investment income, net of fees as recorded in the consolidated statement of activities	<u>\$ 5,231,648</u>	<u>\$ (1,515,719)</u>	<u>\$ 3,715,929</u>

**Expenses**

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

**Administrative Fees**

Foundation management designates investments from all net asset classes into operating and endowment categories. Administrative fees are charged by the Foundation to cover operating expenses as follows, depending on the type of investment portfolio into which the assets are placed:

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

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#### ***Investments - Operating***

The Foundation's operating accounts are not assessed charges to fund the operating budget. Instead, to cover the operating budget and other financial obligations of the Foundation, the Foundation retains all investment earnings on operating funds.

A two-year funds management agreement with the USMF was in place for the period July 1, 2014 through June 30, 2016. The fees due to the USMF under the agreement are 30 basis points against all managed funds (including operating funds) based on the March 31 market value of the previous fiscal year, and are to be deducted from the managed fund(s) in the first quarter of the fiscal year. On July 1, 2016, UMCPF and USMF agreed to a two-year renewal of the existing funds management agreement that took effect July 1, 2016. As a condition to renewing the agreement, both parties agreed to a modification of the fee structure for both the endowment and operating funds managed by USMF on behalf of UMCPF. USMF would continue to charge an annual fee of 30 basis points, based on the market value of the managed funds as of March 31 of the previous fiscal year (both endowment and operating), provided however, that if the market value of the managed funds is \$350 million and less than \$500 million the fee shall be 27.5 basis points and if the market value is \$500 million or more the fee shall be 25 basis points.

On July 1, 2018, a new five-year agreement was executed; whereby, USMF would charge an annual fee on the market value of funds as of March 31 of the previous fiscal year (both operating and endowment) as follows:

- 27.5 basis points for investment balance between \$350 million to \$500 million
- 25 basis points for amounts over \$500 million.

Professional investment fees are deducted by the investment manager prior to the distribution of income. In addition, the Foundation annually assesses each endowment account a fee for management and administration expenses at the rate of 1.6% of the market value of assets managed. If an individual endowment account is underwater (cumulative cash contributions exceed market value) at the spendable income valuation date, no fee is assessed by the Foundation. The Foundation paid 30 basis points (0.30%) of the market value to USMF for endowment investment management services for the fiscal years ending June 30, 2019 and June 30, 2018 respectively, in accordance with the terms of the investment management agreement.

The management fee charged to the operating account by USMF of \$66,823 and \$92,007 for the years ended June 30, 2019 and 2018, respectively, is included in Investment income, net of fees in the Consolidated Statements of Activities and Changes in Net Assets. In no event, shall the fees collected by USMF from the Foundation exceed the actual costs associated with investment management services provided by USMF in accordance with the terms of the investment management agreement.

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

As noted above, a new five-year agreement was executed with an effective start date beginning on July 1, 2018.

The management fee charged to the endowments by USMF of \$1,032,670 and \$929,170 for the years ended June 30, 2019 and 2018, respectively, is included in Investment income, net of fees in the Consolidated Statements of Activities and Changes in Net Assets.

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

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

The Foundation's net assets have been grouped into the following two classes:

#### ***Net Assets Without Donor Restrictions***

Net assets without donor restrictions generally result from revenues derived from providing services and receiving contributions without donor restrictions, less expenses incurred in providing services, raising contributions, and performing administrative functions. These funds are for the use of the Foundation's supporting activities.

#### ***Net Assets With Donor Restrictions***

Net assets with donor restrictions 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 these assets for general or specific purposes.

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

#### **Classification of Gifts**

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, donor restricted net assets are reclassified to support without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as support without donor restrictions.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 fair value of nontraditional investments and the net realizable value of accounts and contributions receivable. Actual results could differ from those estimates. Such differences could be material.

#### **Income Taxes**

Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of section 501(c) (3) of the Internal Revenue Code. Since the Foundation had no material unrelated business income for the years ended June 30, 2019 and 2018, no provision for income taxes has been made. TDC LLC has elected to be treated as a pass through entity for income tax purposes and all taxable items flow through to its members. The Foundation will be filing a form 990T for its share of taxable income (if any).

The FASB issued guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax

**The University of Maryland College Park Foundation, Inc.**  
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return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2019 or June 30, 2018 for uncertain tax positions. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2015.

**Terrapin Development Company Consolidation**

In past fiscal years, the Foundation consolidated each of The LLCs under its control. During fiscal year 2018, these individual LLCs were placed into one master LLC. On January 23rd, 2017, TDC was formed as a limited liability company under the laws of the State of Maryland. On July 1, 2017 an Amended and Restated Operating agreement was then signed transferring control of this master LLC to TDC. As the Foundation has 100% of outstanding interest in TDC as of June 30, 2019 and controls a majority of the Board, it follows the guidance outlined in ASC 958-810 for consolidation. TDC’s operational results are entirely consolidated within the Foundation’s financial statements since the University of Maryland has yet to transfer any of its assets to TDC as planned. The Foundation’s ownership percentage in TDC is 100% as of June 30, 2019.

TDC’s key financial results that are consolidated within the Foundation’s financial statements are as follows:

**Assets**

Cash and cash equivalents	\$ 2,766,688
Property and equipment, net	29,884,125
Other Assets	168,134

**Liabilities and Net Assets**

Capital Lease	3,466,357
Other Liabilities	450,759

**UMCPF Equity (Unrestricted Net Assets)** \$ 28,901,831

Revenue	1,587,473
Expenses	1,620,024
<b>Net Loss (Change in Unrestricted Net Assets)</b>	<b>\$ (32,551)</b>



# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

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#### **Adoption of New Accounting Pronouncement**

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230 – Restricted Cash)*. The ASU requires presentation of the total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. The ASU clarifies that internal transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity’s operating, investing, and financing activities, and therefore, the details of those transfers should not be presented in the statement of cash flows. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018. The Foundation has adopted the ASU but implementation had no impact on the consolidated financial statements.

#### **Recent Accounting Pronouncements Not Yet Adopted**

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

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services. FASB issued ASU 2015-14 that deferred the effective date for the Foundation until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

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

On August 28<sup>th</sup> 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU is intended to improve fair value disclosure requirements by removing disclosures that are not cost-beneficial, clarifying disclosures' specific requirements, and adding relevant disclosure requirements. The guidance allows a not-for-profit entity to not report the full level 3 roll forward (i.e. In lieu of the Level 3 roll forward disclosure requirement, nonpublic entities can separately disclose changes during the period attributable to the following):

- a. Purchases and issues
- b. The amounts of any transfers into or out of Level 3 of the fair value hierarchy and the reasons for those transfers. Transfers into Level 3 should be disclosed and discussed separately from transfers out of Level 3.

The amendments take effect for all organizations for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2019. Management is currently evaluating the impact of this ASU on its financial statements.

### 3. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement* (ASC820) 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. |
|---------|--|

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- Level 2 Pricing inputs include market data which is readily available, regularly distributed or updated, reliable, 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. In addition, the Foundation depends on USMF's investment office and the general partner or the investment manager of the investment for pricing information. In general, the investment funds and partnerships that are within Level 3 are subject to annual audits.

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 UMCPF and USMF. 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 market conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if the Foundation is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

The following tables present the financial investments carried at fair value as of June 30, 2019 and 2018, by the fair value hierarchy defined above:

**The University of Maryland College Park Foundation, Inc.**  
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	June 30, 2019			
	Quoted in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Short term investments</b>				
Cash equivalents and short term securities <sup>(1)</sup>	-			-
Mutual Funds <sup>(2)</sup>	34,609,051			34,609,051
Mutual Funds <sup>(2)</sup> - Funds held for others	9,353,376			9,353,376
<b>Long term investments</b>				
Bonds <sup>(3)</sup>		100,000		100,000
Maryland Proton Treatment Center, LLC - <sup>(4)</sup>			3,750,000	3,750,000
Investment in special strategies - USMF <sup>(5)</sup>			418,868,446	418,868,446
Retained Life Estates - Real Property <sup>(6)</sup>		535,942		535,942
<b>Total investments</b>	<b>\$ 43,962,427</b>	<b>\$ 635,942</b>	<b>\$ 422,618,446</b>	<b>\$ 467,216,815</b>
	June 30, 2018			
	Quoted in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Short term investments</b>				
Cash equivalents and short term securities <sup>(1)</sup>	635,051	-	-	635,051
Mutual Funds <sup>(2)</sup>	32,168,662	-	-	32,168,662
Mutual Funds <sup>(2)</sup> - Funds held for others	8,841,219	-	-	8,841,219
<b>Long term investments</b>				
Bonds <sup>(3)</sup>	-	100,000	-	100,000
Maryland Proton Treatment Center, LLC - <sup>(4)</sup>	-	-	3,750,000	3,750,000
Investment in special strategies - USMF <sup>(5)</sup>			377,787,594	377,787,594
Retained Life Estates - Real Property <sup>(6)</sup>		841,453		841,453
<b>Total investments</b>	<b>\$ 41,644,932</b>	<b>\$ 941,453</b>	<b>\$ 381,537,594</b>	<b>\$ 424,123,979</b>

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

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

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

- (1) Cash equivalents and money market funds include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. The Foundation invests in money-market and short-term investments to maintain liquidity for spending needs. 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. UMCPF has classified these investments as Level 1.
- (2) Mutual funds include amounts invested in accounts with investment brokerage institutions which are readily convertible to known amounts of cash. The Foundation invests in these assets to preserve principle and maintain liquidity for distributions required by charitable gift annuity and charitable trust agreements entered into by the Foundation. Investments held at these institutions are not insured by federal agencies and therefore, bear a risk of loss. UMCPF has classified these investments as Level 1.
- (3) The fair value of the bonds is based upon other than quoted prices with observable inputs. These investments fluctuate in value based upon changes in interest rates. UMCPF has classified these investments as Level 2.
- (4) Bonds - Maryland Proton Treatment Center Holding, LLC ("MPTC")
  - a. In December of 2012, Foundation management received approval from the Foundation Board of Trustees to purchase ten (10) Class A-1 Equity Units (shares) in MPTC, a Delaware Limited Liability Company for \$1,000,000. The Maryland Proton Treatment Center building, located in the University of Maryland Baltimore BioPark, was completed in 2014. The treatment center is providing leading edge cancer treatment using proton therapy. The 110,000 square foot facility began treating patients in early 2016.
  - b. In May of 2013, Foundation management received approval from the Foundation Board of Trustees to purchase a \$5,000,000 Maryland Proton Treatment Center, LLC Senior Secured Note ("Note") that matures and is payable in full on March 31, 2018. MPTC has an option to extend the maturity date of this note for an additional 12 months. The Note paid an annual interest rate of 10% during fiscal year 2014 and due to a restructuring of the debt in September 2014, the interest rate payout increased to 12% and the Note's maturity date was extended to March 31, 2019.
  - c. In April of 2016 MPTC notified the Foundation that a technical default condition existed in its lending agreement with a third party. As a result, MPTC was required to stop distributions of monthly interest payments to holders of their Note. UMCPF did not receive its July 2016 through June 2017 interest payments or its April 2016 through June 2016 interest payments from MPTC and recorded these unpaid payments as receivables on its Statement of Financial Position as of June 30, 2018 and June 30, 2017. MPTC's management has provided UMCPF with periodic financial updates, including updates regarding the restructuring of its debt. Because the terms and timing of MPTC's debt repayment plan were still under negotiation, UMCPF management chose to write down the outstanding interest receivable by \$327,178. This write-down was reflected in the amount recorded as Accrued Interest Receivable on the Statement of Financial Position for the fiscal year ending June 30, 2017.

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- d. In August of 2018, MPTC was re-capitalized using a municipal bond offering. All equity positions and bond holder positions were reduced in value in total by 35%. The Foundation's position was reduced by 48%. The converted bonds will pay interest starting at various future dates depending on the type and subordination. The effect of these transactions are recorded in the financial statements for the fiscal year ending June 30, 2018 as a realized loss on investments. On September 24<sup>th</sup>, 2018, these converted bonds were transferred into the Foundations investment account at Woodbury Financial Services and are being held for future use.
- e. Current State of MPTC – In April of 2019 MPTC appointed Dr. Robert C. Miller, a nationally recognized radiation oncologist most recently at the Mayo Clinic, as their new medical director. As of August 2019 MPTC is continuing to operate at a loss due to unused capacity but they are in the process of adding patients.
- (5) Investments in special strategies are invested by USMF on behalf of UMCPF 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. USMF has not classified itself as an investment company. The investment in special strategies-USMF is presented as Level 3 in the fair value hierarchy 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 net asset value per share of the portfolio based on unobservable inputs and relies on underlying general partners and investment managers for pricing information. The components of and a description of the investment strategies, as disclosed by USMF, of the special strategies-USMF portfolio are as follows:

*Managed accounts investing in money-market funds and short-term investments*

These include amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. Valuation is based on quoted market prices. Money-market and short-term investments are unitized to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The unitized portfolio has not experienced such losses on these funds. Money-market funds and short-term investments represents approximately 3.8% and 8.5% of the total investment held by USMF at June 30, 2019 and 2018, respectively.

*Investments in Equity Securities and Mutual Funds*

In general, equity securities and mutual funds traded on national securities exchange are valued at the last quoted sales price, except securities traded on the NASDAQ Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. The unitized portfolio invests in equity securities to gain exposure to the overall direction of global equity markets. Equity Securities and Mutual Funds represents approximately 33.4% and 29.3% of the total investment held by USMF at June 30, 2019 and 2018, respectively.

*Investments in Absolute Return*

# The University of Maryland College Park Foundation, Inc.

## Notes to Consolidated Financial Statements

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Absolute return investments track the purchase and sale of shares in companies that are subject of publically announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. Notice period for redemption of investments ranges from one month to six months. There are no outstanding unfunded commitments to this asset category. Absolute Return investments represents approximately 9.6% and 12.9% of the total investments held by USMF at June 30, 2019 and 2018, respectively.

#### *Investments in Long/Short Strategies*

Long/short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles and investments that may be subject to early withdrawal penalties. The fair value of these investments has been estimated either by using the net asset value per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding commitments to this asset category. Investments in long/short strategies represents approximately 16.3% and 15.6% of the total investments held by USMF at June 30, 2019 and 2018, respectively.

#### *Private Capital Investments*

Private capital investments consist of private equity and venture capital investments. Private capital investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in nonmarketable securities of new companies or companies considered to be in the early stages of growth. Investments in private equity investment companies and funds are presented at fair value as approved by the unitized portfolio's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or manager generally values their investments at fair value. The fair value of these investments has been estimated either by using the net asset value per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance. Securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by the unitized portfolio's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the unitized portfolio's proportionate share of the capital in the investment company/fund. Private Capital investments represents approximately 36.9% and 33.7% of the total investments held by USMF at June 30, 2019 and 2018, respectively.

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

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	<b>Bonds</b>	<b>Maryland Proton Treatment Center, LLC - Equity</b>	<b>Investments in special strategies - USMF</b>
<b>Fair value recorded at June 30, 2017</b>	5,000,000	1,000,000	337,883,904
Realized and unrealized gains (losses), net	(1,250,000)	(1,000,000)	26,136,420
Purchase of portfolio investments	-	-	29,023,033
Proceeds from sale or distribution of investments	-	-	(15,255,763)
<b>Fair value recorded at June 30, 2018</b>	3,750,000	-	377,787,594
Realized and unrealized gains (losses), net	-	-	20,216,809
Purchase of portfolio investments	-	-	33,855,454
Proceeds from sale or distribution of investments	-	-	(12,891,411)
<b>Fair value recorded at June 30, 2019</b>	<b>\$ 3,750,000</b>	<b>\$ -</b>	<b>\$ 418,968,446</b>

Realized and unrealized gains (losses) recorded for Level 3 investments are included in "Realized and unrealized gains on investments, net" on the Statement of Activities and Changes in Net Assets. Total change in unrealized gains for Level 3 investments were \$6,458,657 and \$12,446,145 for the years ending June 30, 2019 and 2018, respectively.

- (1) During fiscal year 2017, UMCPF entered in two separate retained life estate agreements whereby grantors executed deeds giving the Foundation a remainder interest in each grantor's respective residential real property, while the grantors retained the right to occupy and maintain the properties during their respective lifetimes. However, during the fiscal year ending June 30, 2019, one of the donors forfeited her right to occupy and maintain the property during her lifetime and she donated the property outright to UMCPF. The remaining retained life estate's independently appraised value of the residential property is recorded as other investments on the Statement of Financial Position totaling \$535,942, with a total of \$41,942 recorded as deferred income to adjust this gift to its actuarially calculated value based upon the grantor's life contingency.

**4. Management of Investments**

USMF is the custodian of the UMCPF investment assets under the funds management agreement with USMF in place for the period July 1, 2014 through June 30, 2016 and extended by mutual agreement through June 30, 2017. Per the terms of the investment management agreement, UMCPF funds held by USMF will be invested according to the policies set forth by USMF's Board of Trustees. This agreement allows UMCPF to invest its assets in USMF investment pools in order to take advantage of certain economies of scale as well as to prudently manage investment risk and return. The fees due to the USMF under this agreement are 30 basis points (0.30%) assessed against all managed funds (including operating funds) based on the March 31 market value of the previous fiscal year, and are to be deducted from the managed funds in the first quarter of the current fiscal year.

On July 1, 2018, a new five-year agreement was executed; whereby, USMF would charge an annual fee on the market value of funds as of March 31 of the previous fiscal year (both operating and endowment) as follows:



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- 27.5 basis points for investment balance between \$350 million to \$500 million
- 25 basis points for amounts over \$500 million

USMF serves as custodian and investment manager of approximately 89.6% and 89.1% of the Foundation's Investments as of June 30, 2019 and 2018, respectively. Investments of trusts and annuities are separately invested in exchange-traded funds. Approximately \$5.9 million, or about 1.2% of the Foundation's investment assets and approximately \$4.5 million, or about 1.1% of the Foundation's investment assets, are directly invested by management into these funds as of June 30, 2019 and 2018, respectively. The remaining 9.2% and 9.8% balance of UMCPF's investment assets in fiscal year 2019 and fiscal year 2018 respectively, are invested in individually targeted investments (Note 3 MPTC), investment assets held for others, Israel Bonds, mutual funds and Retained Life Estates.

**5. 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 total deposits at the institutions may exceed the amount guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized.

**6. Contributions Receivable**

As of June 30, 2019 and 2018, contributors have unconditionally promised to give \$189,029,966 and \$163,098,935 to the Foundation, respectively. Promised contributions are due as follows as of June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Due within one year	\$ 114,460,633	\$ 93,779,580
Due within 2-5 years	81,860,242	101,133,878
More than five years*	<u>7,996,348</u>	<u>9,667,711</u>
	204,317,223	204,581,169
Less: Allowance for doubtful accounts	(8,245,672)	(32,966,370)
Less: Discount to present value	<u>(7,041,585)</u>	<u>(8,515,864)</u>
Total contributions receivable, net	<u>\$ 189,029,966</u>	<u>\$ 163,098,935</u>

\* Includes trusts held by third parties valued at \$554,926 and \$551,077 at June 30, 2019 and 2018, respectively.

The discount rate used to calculate the present value component at June 30, 2019 and 2018 was 4.40% and 4.09%, respectively, for those contributions due in zero to five years and for contributions due in more than five years, the discount rate used to calculate the present value component at June 30, 2019 and 2018 was 5.50% and 5.00%, respectively.

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

Contributors have informed the Foundation of intentions to give in excess of \$105,000,000 and \$4,000,000 during the fiscal years ended June 30, 2017 and 2016, respectively. These intentions

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relate primarily to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion. Therefore, they are appropriately not recorded in the accompanying financial statements.

**8. Endowments**

The Foundation's endowment consists of over 1,200 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees 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 Trustees of the Foundation 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 as donor restricted net assets, (a) the original value of gifts donated to the permanent endowment and (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.

Endowment net asset composition by type of fund as of June 30, 2019 and 2018 is noted below:

<i>(in thousands)</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2019</b>			
Donor-restricted endowment funds	\$ 249	\$ 491,455	\$ 491,704
Total endowment funds	<u>\$ 249</u>	<u>\$ 491,455</u>	<u>\$ 491,704</u>

<i>(in thousands)</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2018</b>			
Donor-restricted endowment funds	\$ 285	\$ 437,244	\$ 437,529
Total endowment funds	<u>\$ 285</u>	<u>\$ 437,244</u>	<u>\$ 437,529</u>

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Changes in endowment net assets for the year ended June 30, 2019 and 2018:

<i>(in thousands)</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2019</b>			
<b>Endowment net assets, beginning of year</b>	\$ 285	\$ 437,244	\$ 437,529
Investment return			
Investment income		4,501	4,501
Endowment management and investment fees		(5,622)	(5,622)
Net appreciation/(depreciation) (realized and unrealized)		18,814	18,814
Subtotal		454,937	455,222
Gifts		47,890	47,890
Appropriation of endowment assets for expenditure		(11,177)	(11,177)
Transfers to reclass purpose	(36)	(195)	(231)
<b>Endowment net assets, end of year</b>	<b>\$ 249</b>	<b>\$ 491,455</b>	<b>\$ 491,704</b>
<b>2018</b>			
<b>Endowment net assets, beginning of year</b>		\$ 324,864	\$ 324,864
Investment return			
Investment income		27,648	27,648
Endowment management and investment fees		(5,023)	(5,023)
Net appreciation/(depreciation) (realized and unrealized)		(334)	(334)
Subtotal		347,155	347,155
Gifts		98,606	98,606
Appropriation of endowment assets for expenditure		(8,575)	(8,575)
Transfers to reclass purpose	285	58	343
<b>Endowment net assets, end of year</b>	<b>\$ 285</b>	<b>\$ 437,244</b>	<b>\$ 437,529</b>

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**Donor Restricted Net Assets - Endowment Funds**

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by MUPMIFA as of June 30, 2019 and 2018:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Academic programs	\$ 321,731	\$ 280,721
Scholarship/fellowship	127,192	118,843
University advancement	26,480	24,903
Student support	7,292	4,793
Facility and advancement	4,169	3,857
Research	4,321	3,920
Athletics	270	207
	<u>\$ 491,455</u>	<u>\$ 437,244</u>

**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. At year end for fiscal year 2019, six (6) individual endowments had market values below their respective donated principal balances (donated principal or “corpus”) and at year end for fiscal year 2018, ten (10) individual endowments had market values below their respective donated principal balances (donated principal or “corpus”). These “underwater” endowments had market value deficits of \$25,490 and \$8,315 as of June 30, 2019 and 2018, respectively. These deficits resulted 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 or the donor. Future market gains will be used to restore this deficiency.

**Return Objectives and Risk Parameters**

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

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 various institutions. The Investment Committee governs according to fundamental investment principles, approved by the Board of Directors and the Investment Committee, on which the Foundation is represented, 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, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation, through its own-managed funds and USMF managed funds, targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

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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 risk).

The asset allocation target ranges inclusive of these securities 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 %	15 %	25 %
Portfolio Overlay	0 %	0 %	5 %
Public Risk Assets	48 %	45 %	75 %
Private Risk Assets	35 %	20 %	40 %

The Endowment Portfolio is constructed based on the following principles:

- (1) **Allocation:** The overall goal of the investment committee in establishing the asset class ranges is to create balance across the portfolio between sources of return, liquidity timeliness, and types of risk. The purpose and definition of each asset class and sub-class is as follows:
  - a. **Safe Assets** are defined as investments with little-to-no principal risk. These assets are U.S. Government securities and cash. This portion of the portfolio is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress.
  - b. **Intermediate Assets** represent private, finite life investment vehicles whose term is generally longer than public risk assets, but shorter than private risk assets. Since there is modest liquidity 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. **The Portfolio Overlay** is another line of defense for capital preservation. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. This is achieved through a number of liquid exchange traded instruments that aim to hedge against undesired risks. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as needed, opportunistic basis.
  - d. **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. Within this section of the portfolio, a number of uncorrelated objectives across equity and credit managers and instruments are sought.

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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 closely follow a market benchmark, as they seek to offer broad diversification for the aggregate portfolio, while still earning high risk adjusted returns, while muting general equity market volatility when possible.

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

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

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

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

The Foundation has a spending rate rule for its investments held for endowment in order to preserve purchasing power of the assets, to protect against erosion of nominal principal, and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending.

The Foundation's policy of appropriating as of July 1, 2018 was based on the following:

- a. All endowed funds in existence before July 1<sup>st</sup> will be eligible for full spendable income as determined annually by the board of trustees (currently 4.3%), the following July 1<sup>st</sup> based on the preceding December 31<sup>st</sup> market value of the endowed fund.
- b. Endowed funds whose market value as of the measurement date minus the greater of corpus or historical dollar value (HDV) is less than 6.1% of the greater of corpus or HDV, shall receive a proportional share of the full spendable income allocation based upon the pro-rata share of the excess market value over the greater of corpus or HDV.
- c. Newly created individual endowment funds that have been funded at a minimum endowment levels but have been invested for less than one year receive partial

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spendable income of 75%, 50% or 25% of the full spending rate based upon the financial quarter in which the gift was received, Q1, Q2 or Q3 respectively.

- d. Endowed funds whose market value as of the measurement date is less than the corpus value, i.e. underwater – shall not receive any spendable income without written donor consent until such time the market value as of the measurement date exceeds the corpus value.

Any available spendable income balance at fiscal year-end will automatically be carried over to future years as long as there is spending history recorded in the account in the last two years.

However, based upon this annual review of endowment activity for the two prior consecutive fiscal periods it is determined there has been no spending from an endowment account, the policy adopted by the board of trustees requires the unspent amounts to be un-allocated and not made available for spending purposes from the endowment; thereby increasing the market value on which all future spendable income allocations will be determined.

An appeal to continue carrying over the unspent funds will be considered if an explanation in writing is received by an account administrator of record on the endowed account, as to why spending has not occurred in the past and a future use of the requested carryover of funds is established.

**9. Restricted Net Asset Activity**

**Donor Restricted Net Assets**

Net assets with donor restrictions are restricted for the following purposes at June 30:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Academic programs	\$ 352,622	\$ 295,599
Scholarship/fellowship	198,138	184,619
University advancement	103,823	82,124
Research	19,072	17,457
Student support	16,954	12,366
Facility advancement	14,589	37,835
Athletics	4,339	6,041
	<u>\$ 709,537</u>	<u>\$ 636,041</u>

**Net Assets Released from Restrictions**

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events 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:

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<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Facility advancement	\$ 25,041	\$ 17,302
Academic programs	15,241	13,248
Scholarship/fellowship	10,387	12,189
University advancement	6,937	13,565
Athletics	5,771	1,616
Research	1,811	2,026
Student support	1,714	2,277
	<u>\$ 66,902</u>	<u>\$ 62,223</u>

**10. Charitable Gift Annuity Requirements**

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately \$2,313,632 and \$2,239,812 as of June 30, 2019 and 2018, respectively.

**11. Liquidity and Availability**

The Foundation manages its investment pool to ensure liquidity is sufficient to meet its 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 8.

Funds available to meet general expenditures within one year are as follows:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 48,401,712	\$ 38,362,709
Accounts receivable	67,162	57,064
Accrued interest receivable	-	667
Contributions receivable, current portion	110,416,190	78,941,541
Short term investments	29,244,232	27,651,733
Other assets	219,172	51,385
Total financial assets available within one year	<u>\$ 188,348,468</u>	<u>\$ 145,065,099</u>



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#### 12. Related Party Transactions

Various members of the Foundation may also be members of the Board of Trustees of the investment manager, USMF.

The Foundation has no employees. The University tracks and administers all payroll and fringe benefit costs for its employees who substantially support the Foundation. The Foundation reimburses the University for the salary and benefit costs on an annual basis, estimating the salary costs of individuals devoting effort to the Foundation, and applying a 33% fringe rate in addition to the salary costs for fiscal years ended June 30, 2019 and 2018.

The Foundation supports commitments for fund raising expenses of the University, as per the affiliation agreement with UMCP. The amount paid by the Foundation to the University was \$859,595 and \$900,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

#### 13. Commitments and Contingent Liabilities

During the course of its operations, the Foundation may be exposed to various forms of litigation, claims and assessments. As of June 30, 2019, management was not aware of any matters that could have a material effect on the its financial position, change in net assets, or cash flows.

#### 14. Functional Expenses

The Foundation reports expenses as general and administrative, program and fundraising. Expenses are allocated on a reasonable basis that is consistently applied. The following are functional expenses for the years ended June 30, 2019 and 2018:

- General and Administrative – These expenses relate to the day to day operation of the administrative and accounting offices of the organization
- Program – These assist various programs to promote the interest of the individual colleges/schools, to support activities and facilities of the buildings, to aid with the various costs associated with maintaining and improving different departments, to award students scholarships, to fund the purchases of equipment needed for the different campus fields of studies, and to support the athletics programs.
- Fundraising – These expenses are associated with all activities related to fundraising initiatives and activities.

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<b>FY2019 Functional Expenses</b>	<b>Program</b>	<b>General and Admin</b>	<b>Fundraising</b>	
Transfers to UMCP	60,081,088	12,255		60,093,343
Student Support	2,402,125			2,402,125
Personnel		859,595		859,595
Outside Services	3,008,826	197,099		3,205,925
Research and Special Projects	1,923,873			1,923,873
Development	2,085,974	405,490		2,491,464
Educational Programs	254,654			254,654
Equipment/Software/Maintenance	1,983,386	41,066		2,024,452
Travel	508,409	4,961		513,370
Credit Card Fees	165		154,789	154,954
TDC Investment	64,089	1,585,412		1,649,501
Building		61,658		61,658
Other Expenses	929,199	172,644		1,101,843
<b>Total</b>	<b>73,241,788</b>	<b>3,340,180</b>	<b>154,789</b>	<b>76,736,757</b>

<b>FY2018 Functional Expenses</b>	<b>Program</b>	<b>General and Admin</b>	<b>Fundraising</b>	
Transfers to UMCP	59,775,614	2,363		59,777,977
Student Support	382,119			382,119
Personnel		900,000		900,000
Outside Services	3,190,296	220,021		3,410,317
Research and Special Projects	317,922			317,922
Development	2,255,935	243,350		2,499,285
Educational Programs	242,731			242,731
Equipment/Software/Maintenance	356,340	19,091		375,431
Travel	978,055	215		978,270
Credit Card Fees			210,754	210,754
TDC Investment	114,375	1,489,540		1,603,915
Building		74,251		74,251
Other Expenses	938,963	169,675		1,108,638
<b>Total</b>	<b>68,552,350</b>	<b>3,118,506</b>	<b>210,754</b>	<b>71,881,610</b>

**15. Subsequent Events**

Subsequent events have been evaluated by management through October 29, 2019, which is the date the financial statements were available to be issued. The Foundation is not aware of any additional subsequent events which would require recognition or disclosure.