

University System of Maryland Foundation, Inc.

**Consolidated Financial Statements and
Supplementary Information
June 30, 2006 and 2005**

University System of Maryland Foundation, Inc.

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June 30, 2006 and 2005

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Report of Independent Auditors

To the Board of Directors of
The University System of Maryland Foundation, Inc.:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of The University System of Maryland Foundation, Inc. ("the Foundation") and its subsidiaries at June 30, 2006 and 2005, and the changes in its net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

September 27, 2006

University System of Maryland Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2006 and 2005

<i>(in thousands)</i>	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 633	\$ 460
Accounts receivable	2,578	5,054
Receivable from investments sales	1,503	5,220
Accrued interest receivable	750	1,482
Contributions receivable - current portion	7,894	12,145
Other receivables - current portion	10	10
Other current assets	173	589
Total current assets	13,541	24,960
Investments		
Endowment	209,136	207,810
Operating	53,711	49,664
Held for other foundations	496,194	224,590
Total investments	759,041	482,064
Other assets		
Contributions receivable - long term portion	12,358	10,347
Contributions receivable from remainder trusts	1,137	1,279
Angus breeding herd, trademark, logo, records, and data bank	1,180	1,180
Real and personal property	5,901	5,664
Assets held for sale	1,945	2,754
Other receivables - long term portion	222	229
Cash surrender value of life insurance and other assets	277	256
Office equipment and furniture, net of accumulated depreciation of \$792 and \$795, respectively	106	104
Goodwill, net of accumulated amortization of \$63	73	76
Total other assets	23,199	21,889
Total assets	\$ 795,781	\$ 528,913
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,487	\$ 4,118
Payable for investment purchases	2,888	1,027
Deferred income	86	79
Total current liabilities	5,461	5,224
Other liabilities		
Payables under split-interest agreements	6,224	5,630
Due to other foundations and affiliates	496,826	224,590
Total other liabilities	503,050	230,220
Total liabilities	508,511	235,444
Net assets		
Unrestricted	57,641	54,044
Temporarily restricted	56,472	61,903
Permanently restricted	173,157	177,522
Total net assets	287,270	293,469
Total liabilities and net assets	\$ 795,781	\$ 528,913

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

University System of Maryland Foundation, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2006

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	\$ 4,752	\$ 10,722	\$ 11,750	\$ 27,224
Investment income	1,763	2,082	-	3,845
Other program income	1,354	-	-	1,354
Courses and conferences	437	-	-	437
Sales and services	2,714	-	-	2,714
Change in value of split interest agreements	-	(160)	(367)	(527)
Realized and unrealized gains on investments and other, net	7,055	8,790	10,525	26,370
Net assets released from restrictions	24,433	(24,433)	-	-
Total revenues	<u>42,508</u>	<u>(2,999)</u>	<u>21,908</u>	<u>61,417</u>
Expenses				
Program	27,436	-	-	27,436
General and administrative-program support	3,021	-	-	3,021
General and administrative - other	2,391	-	-	2,391
Fundraising	4,694	-	-	4,694
Total expenses	<u>37,542</u>	<u>-</u>	<u>-</u>	<u>37,542</u>
Change in net assets before transfers	4,966	(2,999)	21,908	23,875
Transfers per Board resolution	<u>(1,369)</u>	<u>(2,432)</u>	<u>(26,273)</u>	<u>(30,074)</u>
Change in net assets	3,597	(5,431)	(4,365)	(6,199)
Net assets at beginning of year	<u>54,044</u>	<u>61,903</u>	<u>177,522</u>	<u>293,469</u>
Net assets at end of year	<u>\$ 57,641</u>	<u>\$ 56,472</u>	<u>\$ 173,157</u>	<u>\$ 287,270</u>

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

University System of Maryland Foundation, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2005

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and grants	\$ 5,011	\$ 12,010	\$ 10,558	\$ 27,579
Investment income	1,923	2,056	-	3,979
Other program income	1,301	-	-	1,301
Courses and conferences	404	-	-	404
Sales and services	2,090	-	-	2,090
Change in value of split interest agreements	19	(133)	216	102
Realized and unrealized gains on investments and other, net	5,809	8,316	8,921	23,046
Net assets released from restrictions	18,043	(18,043)	-	-
Total revenues	<u>34,600</u>	<u>4,206</u>	<u>19,695</u>	<u>58,501</u>
Expenses				
Program	24,619	-	-	24,619
General and administrative-program support	2,491	-	-	2,491
General and administrative - other	1,891	-	-	1,891
Fundraising	4,697	-	-	4,697
Total expenses	<u>33,698</u>	<u>-</u>	<u>-</u>	<u>33,698</u>
Change in net assets before transfers	902	4,206	19,695	24,803
Transfers per Board resolution	(1,702)	-	(1,890)	(3,592)
Change in net assets	(800)	4,206	17,805	21,211
Net assets at beginning of year	54,844	57,697	159,717	272,258
Net assets at end of year	<u>\$ 54,044</u>	<u>\$ 61,903</u>	<u>\$ 177,522</u>	<u>\$ 293,469</u>

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

University System of Maryland Foundation, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2006 and 2005

<i>(in thousands)</i>	2006	2005
Cash flows from operating activities		
Change in net assets	\$ (6,199)	\$ 21,211
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities		
Net realized and unrealized gain on investments	(26,370)	(23,046)
Realized gains on investments for split interest agreements	(360)	(493)
Realized and unrealized gains on managed funds	(46,578)	(16,648)
Realized and unrealized gains on transfers per Board resolution	(8,452)	(13)
Depreciation and amortization	34	24
Bad debt expense	178	251
Gift of investments	(476)	(1,491)
Gift of real and personal property	(1,807)	(1,187)
(Gain) loss on disposal of equipment	(1)	2
Decrease (increase) in accounts receivable	2,476	(899)
Decrease (increase) in accrued interest receivable	732	(379)
Decrease in contributions receivable	2,062	4,108
Increase in other receivable	(3)	(31)
Decrease in contributions receivable from remainder trusts	142	1,123
(Decrease) increase in other current assets	416	(247)
Increase in cash surrender value of life insurance	(21)	(54)
Increase (decrease) in accounts payable and accrued expenses	(1,631)	1,861
Increase (decrease) in deferred income	7	(9)
Increase in due to other foundations and affiliates	74,834	14,167
Contributions restricted for long-term investment	(8,790)	(9,603)
Total adjustments	<u>(13,608)</u>	<u>(32,564)</u>
Net cash and cash equivalents used in operating activities	<u>(19,807)</u>	<u>(11,353)</u>
Cash flows from investing activities		
Purchases of investments	(1,285,868)	(723,098)
Sales of investments	1,288,532	729,752
Payments from notes receivable	10	9
(Decrease) increase in receivables from investment sales	3,717	(3,528)
Increase (decrease) in payable for investment purchases	1,861	(1,178)
Purchase of equipment	2,471	(90)
Proceeds from sale of equipment and real property	3	-
Purchase of real and personal property	(130)	(73)
Net cash and cash equivalents provided by investing activities	<u>10,596</u>	<u>1,794</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	8,790	9,603
Decrease in payables under split-interest agreements	594	60
Net cash and cash equivalents provided by financing activities	<u>9,384</u>	<u>9,663</u>
Net increase in cash and cash equivalents	173	104
Cash and cash equivalents		
Beginning of year	460	356
End of year	<u>\$ 633</u>	<u>\$ 460</u>
Supplemental non-cash flow disclosure		
Income Taxes	\$ -	\$ (116)

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

University System of Maryland Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

1. Nature of operations

The University System of Maryland Foundation, Inc. (the "Foundation", 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"). 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 or the University of Maryland Medical System ("UMMS"). The Foundation is comprised of three separately accounted-for divisions: the University System of Maryland Foundation Funds, the American Journalism Review, and the Wye Herd, as well as a fully owned subsidiary for-profit corporation, the USMF Corporation (refer to Footnote 17 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 have been prepared on the accrual basis of accounting. As described in Footnote 1, the Foundation is comprised of three divisions as well as a fully 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 the deposits and investments, respectively. Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at cost, which approximates market value.

Office Equipment and Furniture

Equipment is carried at cost. The Foundation's policy is to charge all additions over \$1,000 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 is five years. Asset and accumulated depreciation accounts are relieved when equipment are sold or otherwise disposed.

Investments

Investment securities are valued based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or other reasonable valuation methodologies.

In general, equity securities 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. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. Financial instruments such as corporate bonds or other similar instruments are valued at fair value after consideration of market quotations obtained from published sources, independent pricing services and/or other market participants. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager

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under the general oversight of the Board of Trustees of the Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability, (or absence thereof) cost, restrictions on transfer, and available quotations of similar instruments. Total return swap contracts are valued at fair value based upon the quoted market or fair value of the underlying assets.

Investments in limited partnerships are presented at fair value as determined by the general partner under the general oversight of the Board of Trustees of the Foundation. The general partner generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by the general partners. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment partnership can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the Foundation's proportionate share of the partner's capital in the investment partnership as reported by the general partner. Accordingly, the value of the investment in the partnership is generally increased by additional contributions and the partnership's share of net earnings from the partnership investments and decreased by distributions from the partnerships and the partner's share of net losses.

The Foundation invests in funds of funds. In these cases the valuation for investment within each fund within the fund of funds is determined as noted above. The fund of funds then obtains its share of the valuation from the underlying partnerships and reports the valuation to each partner based on the partner's net equity.

The value assigned to the investment portfolios where there is no public market value is determined by the investment manager in good faith under the general oversight of the Board of Trustees of the Foundation and does not necessarily represent the amount that may ultimately be realized. Because of the inherent uncertainty of valuation of these investments, the estimates of fair value may differ from quoted or published values or from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The change in net unrealized gains or losses on investment securities is reflected in the statement of activities. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date.

For endowment assets, which are all held in a pool, investment gains or losses are distributed quarterly among the individual endowment funds on the basis of the number of units of the pool held by each individual endowment account. If the donor document requires that unspent earnings be added back to corpus, then losses below the cost basis of endowment assets shall first reduce permanently restricted net assets to the extent of accumulated unexpended earnings, then temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the assets have not been met before the loss occurs with any remaining loss reducing unrestricted net assets.

As a result of market declines, the fair value of certain donor restricted endowments is less than the historical cost value of such funds ("underwater") by approximately \$0 and \$158,000 at June 30, 2006 and 2005, respectively.

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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 Board of Trustees has authorized a formulaic approach to determining the annual spending rate. Under the formula, the annual spending rate may not exceed 5% or be less than 4%. Each year's calculation is determined based on the average market value over the prior twenty quarters of an endowment fund and changes in the Consumer Price Index. Spending rates may not violate any donor restrictions. The spending rates for 2006 and 2005 were 4.63% and 4.93%, respectively.

The Foundation reports realized and unrealized gains net of fees. The following schedule reflects the gains and fees for the years ending June 30, 2006 and 2005.

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006
Realized and unrealized gains on investments and other, gross of fees	\$ 7,601	\$ 9,325	\$ 24,265	\$ 41,191
Investment fees, including those relating to managed funds which are included in permanently restricted	<u>546</u>	<u>535</u>	<u>13,740</u>	<u>14,821</u>
Realized and unrealized gains on investments and other, net of fees as recorded in the consolidated Statements of Activities	<u>\$ 7,055</u>	<u>\$ 8,790</u>	<u>\$ 10,525</u>	<u>\$ 26,370</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2005
Realized and unrealized gains on investments and other, gross of fees	\$ 7,421	\$ 8,765	\$ 17,732	\$ 33,918
Investment fees, including those relating to managed funds which are included in permanently restricted	<u>1,612</u>	<u>449</u>	<u>8,811</u>	<u>10,872</u>
Realized and unrealized gains on investments and other, net of fees as recorded in the consolidated Statements of Activities	<u>\$ 5,809</u>	<u>\$ 8,316</u>	<u>\$ 8,921</u>	<u>\$ 23,046</u>

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 noted in Footnote 1).

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

University System of Maryland Foundation, Inc.
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held for investment purposes and are not depreciated. Assets held for sale are reported separately and adjusted to market value when appraised.

Goodwill

Goodwill in the American Journalism Review (as noted in Footnote 1) is amortized using the straight-line method over a 40-year life. Amortization expense of \$3,485 was charged to operations for each of the years ended June 30, 2006 and 2005.

Expenses

The Foundation expends certain funds considered as general and administrative in nature. These funds are either on behalf of a USM or UMMS school, a department activity, or for the Foundation's business operations and have been classified as such.

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 these other foundations an annual management fee based on the fair value of endowment and operating funds administered (0.3% for endowment funds and 0.25% for operating funds in the year ended June 30, 2006 except for USM endowment, which was charged 0.25%. 0.4% was charged for endowment funds in the year ended June 30, 2005). The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled \$1,153,502 and \$570,600 for the years ended June 30, 2006 and 2005, respectively.

During the year ended June 30, 2006, the Board of Regents of USM transferred approximately \$197 million to the Foundation and entered into an arrangement pursuant to which the Foundation invested the funds on behalf of USM. The funds are contained in USM's Common Trust and are included in due to other foundations and affiliates at June 30, 2006. This transfer was a non-cash transaction.

The amounts due to other foundations and affiliates at June 30, 2006 and 2005, were as follows (in thousands):

	2006	2005
Coppin State College Development Foundation, Inc.	\$ 7,783	\$ 6,889
Bowie State University Foundation	4,026	3,516
UMCP Alumni Association	-	263
Alumni Association International	4,067	3,733
University of Baltimore Foundation	3,960	3,536
Towson University Foundation	760	726
Frostburg State University Foundation	10,201	8,600
UMCP Foundation	158,831	114,667
UMB Foundation	92,171	81,373
UMMS Foundation	1,439	1,287
University System of Maryland	213,588	-
Total	<u>\$ 496,826</u>	<u>\$ 224,590</u>

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Classification of Net Assets

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

Unrestricted Net Assets - Unrestricted net assets generally result from revenues derived from providing services and receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets - Temporarily restricted 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.

Permanently Restricted Net Assets - Permanently restricted net assets generally result from contributions and other inflows of assets, which cannot be used by the Foundation. Income from these assets can be unrestricted or restricted based on donor stipulation.

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

Classification of Gifts

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted support. Amounts outstanding are recorded at the net realizable value discounted based on the period of future payment.

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. The Foundation recognizes a liability for the portion of the split-interest agreement to be paid to the beneficiary under the terms of the agreement.

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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.

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 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.

Investments - operating – In the year ended June 30, 2006 the Foundation assessed a fee for each fund in the amount of .4% of the 12 month average balance. In the year ended June 30, 2005, no fees for administrative expenses were assessed on these funds. Professional investment fees are paid to the investment managers prior to the distribution of income.

Investments - endowment - The Foundation annually assesses each endowment account for operating and administrative expenses and institution fund-raising support, 0.4% and 1.6% for the years ended June 30, 2006 and 2005, respectively, based on market value of assets managed. Professional investment fees are paid to or deducted by the investment managers prior to the distribution of income.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allocation of investments by type, the fair value of non-traditional investments, and the net realizable value of the accounts and contributions receivable. Actual results could differ from those estimates.

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. The rates utilized in arriving at the values used to discount pledges for future payments were derived from the two year and five year Federal Reserve treasury constant maturity rates at the date of the gift. Contributions that are expected to be received within two to five years are discounted at the two year treasury constant maturity rate. Contributions expected to be received more than five years from the pledge date are discounted at the five year treasury constant maturity rate. Assets held for sale are based on appraisal value.

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the current year's presentation.

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3. Investments

The fair value and cost of investments at June 30 were as follows (in thousands):

	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Money market funds and short-term investments	\$ 9,963	\$ 9,963	\$ 4,605	\$ 4,605
Corporate and foreign bonds	45,980	47,339	34,912	35,110
Equities	160,116	132,875	117,821	96,628
United States Treasury notes and bonds	4,015	4,092	10,532	10,596
United States Agencies	2,199	2,231	7,383	7,370
Collateralized mortgage obligations/asset and mortgage backed securities	17,982	18,447	12,577	12,654
Absolute return	166,435	130,484	99,794	87,016
Long/short equity hedge funds	257,920	221,550	134,027	120,050
Private capital	35,263	31,947	28,987	27,988
Real estate and energy and natural resources	59,168	44,208	31,426	24,370
Totals	\$ 759,041	\$ 643,136	\$ 482,064	\$ 426,387

Included in the equity asset class is a market neutral fund that consists of a core equity portfolio complemented with index call and put options designed to help manage portfolio risk. Absolute return assets consist of investments that involve the purchase and sale of shares in companies that are the subject of publicly 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. Long/short strategies take long and short positions in primarily US publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in non-marketable securities of new companies or companies considered to be in the early stages of growth. Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. The Foundation committed \$304 million to private capital, real estate, and energy and natural resource partnerships of which \$100.3 million has been called as of June 30, 2006. These commitments are to be funded through transfers from other investments and new cash.

4. Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash, cash equivalents, and investments. The trust division of one financial institution holds these assets as custodian. The total deposits at this institution exceed the amount

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guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized. However, as held by the trust division, they are not attachable by the creditors of the financial institution. The Foundation performs periodic evaluations of this institution for relative credit standing. At June 30, 2006 and 2005, the custodian held approximately \$179.6 million and \$188.0 million, respectively, in trust. Other assets are held by individual fund administrators and within the partnerships.

5. Contributions Receivable

As of June 30, 2006 and 2005, contributors to the Foundation unconditionally promised to give approximately \$21.7 million and \$23.8 million, respectively.

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

	2006	2005
Within one year	\$ 7,894	\$ 12,145
One to five years	12,349	10,899
More than five years	1,470	800
Subtotal	<u>21,713</u>	<u>23,844</u>
Less: present value component	1,461	1,352
Net contributions receivable	<u>\$ 20,252</u>	<u>\$ 22,492</u>

The discount rates used to calculate the present value component:

For the pledge year ended June 30,	1-5 Years	5 Plus Years
2006	5.29%	5.09%
2005	3.64%	3.83%
2004	1.13%	5.50%
2003	2.88%	5.63%
2002	2.88%	4.38%
2001	4.22%	5.07%
2000	6.38%	6.75%
1999	5.65%	5.92%
1998	5.10%	5.10%
1997	4.53%	4.53%
1996	6.50%	6.50%
1995	6.50%	6.50%

These rates are based on the yield at year-end of the appropriate United States Treasury Note.

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately \$1.1 million and \$1.3 million at June 30, 2006 and 2005, respectively, based on the latest available information from outside trustees.

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

6. Conditional Promises to Give and Intentions

To the extent the following items are conditional promises to give and 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 \$2.0 million at June 30, 2006 and 2005. In addition, the Foundation is owner and beneficiary of policies with face amounts of \$1.0 million and cash surrender values of approximately \$206,500 and \$190,900 at June 30, 2006 and 2005, respectively.

Bequests and Intentions

Contributors have informed the Foundation of intentions to give of approximately \$23.0 million at June 30, 2006 and 2005. These intentions relate primarily to bequests and revocable trusts, which at the contributor's discretion may be changed and/or amended.

7. Restricted Net Asset Activity

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30 (in thousands):

	2006	2005
Academic programs	\$ 31,978	\$ 35,926
Student support	12,264	12,358
University advancement	658	1,801
Research	9,713	8,593
Faculty support	1,859	3,225
Total	<u>\$ 56,472</u>	<u>\$ 61,903</u>

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for the following purposes at June 30 (in thousands):

	2006	2005
Academic programs	\$ 50,814	\$ 46,592
Student support	88,197	85,520
University advancement	457	11,636
Research	1,112	1,098
Faculty support	32,577	32,676
Total	<u>\$ 173,157</u>	<u>\$ 177,522</u>

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

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. Such net assets were released as follows during the years ended June 30 (in thousands):

	2006	2005
Academic Programs	\$ 11,410	\$ 5,155
Student Support	5,395	4,833
University Advancement	342	797
Research	4,722	5,224
Faculty Support	2,564	2,034
Total	<u>\$ 24,433</u>	<u>\$ 18,043</u>

8. Pension Plan

The Foundation maintains a defined contribution plan for certain personnel provided by the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF). The Foundation contributes 7.25% of the employee's compensation to the 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 the plan. The Foundation established a 457(b) plan for top executives in 2002. Total pension expense for the years ended June 30, 2006 and 2005 was approximately \$120,215 and \$141,812, respectively.

9. Contributed Services

A number of unpaid volunteers contribute their time to the Foundation. The value of these services has not been included in the financial statements as these services do not meet the reporting criteria set forth in accounting principles generally accepted in the United States of America.

10. Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c)(3) of the Internal Revenue Code. A provision of \$116,000 is reflected in the financial statements for the year ending June 30, 2005 for unrelated business income tax. Since the Foundation had no material unrelated business income for the year ended June 30, 2006, no provision for income taxes had been made.

The University System of Maryland was selected for an IRS audit, and the IRS has extended the audit to include foundations affiliated with the system. In a letter dated August 17, 2005 the Foundation received notification that the Foundation continues to qualify for exemption from Federal income tax and the Forms 990 and 990T were accepted as filed for the year ending June 30, 2001. In addition, the Form 941 was accepted as filed for the calendar year 2001.

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

11. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally restricted cash and investments associated with annuity liabilities of approximately \$6.2 million and \$5.6 million, as of June 30, 2006 and 2005, respectively.

12. University of Maryland College Park and University of Maryland Baltimore Foundations

During the year ended June 30, 1999, the Maryland State Legislature passed legislation allowing each University System of Maryland institution to establish its own separate, affiliated foundation. In the year ended June 30, 2000, the University of Maryland College Park Foundation (UMCPF) and the University of Maryland Baltimore Foundation (UMBF) were incorporated. The Foundations have signed investment management agreements whereby funds held by UMCPF and UMBF will be invested with the Foundation according to the policies set by the Foundation's Finance Committee.

Approximately \$79.7 million and \$105 million of the Foundation's endowment assets and \$5.8 million and \$6.5 million of its pledges receivable are designated for the benefit of the University of Maryland College Park as of June 30, 2006 and 2005, respectively. For the years ended June 30, 2006 and 2005, respectively, donors requested the transfer of approximately \$27.4 million and \$50,000 of these endowment assets and \$1 million pledges receivable to UMCPF. There is one pending request requiring verification of documents.

Approximately \$26.5 million and \$28 million of the Foundation's endowment assets and \$223,000 and \$224,000 of its pledges receivable are designated for the benefit of the University of Maryland Baltimore as of June 30, 2006 and 2005, respectively. Through June 30, 2006 and 2005, donors requested the transfer of approximately \$1.6 million and \$2.2 million of these endowment assets and \$0 pledges receivable to UMBF. There are two pledge requests pending receipt of additional information.

The amount of any future transfers of endowment assets or pledges currently included in the assets of the Foundation into either of the new foundations, or to any other foundations formed pursuant to the legislation described above, is not estimable.

13. Related Party Transactions

Various members of the Board of Trustees of the Foundation are associated with organizations which manage a portion of the Foundation's assets, or in which the Foundation has invested. These associations include investment by the Trustee in entities in which the Foundation has also invested, business relationships between the Trustee and entities in which the Foundation has invested, employment of the Trustee by an investment manager or one of its affiliates, and participation by the Trustee on the Board of Directors of an investment manager.

Members of the Board of Trustees do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those Trustees are associated. Approximately \$76.2 million or 9.5% of the Foundation's total assets of \$795.8 million are invested in entities that have associations with members of the Foundation's Board of Trustees.

University System of Maryland Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

14. Commitments and Contingencies

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

15. Option Arrangement

On November 27, 2002 the Foundation (the "seller") signed an option agreement with AV Williams Property LLC (the "buyer") to sell for \$1.9 million all of the Foundation's right, title and interest in 207 acres known as the "Hall Property". On August 30, 2005, the parties agreed to convert the option agreement to a purchase agreement. According to the contract the buyer has the right to purchase said property at a single settlement or up to a total of 5 settlements. The purchase price is based on the values assigned in the appraisal dated May 21, 2002, but shall be no more or no less than One Million Eight Hundred Eighty-Eight Thousand (\$1,888,000) as stipulated in the original option. All property will be purchased by October 1, 2007. In consideration of the seller's option, the buyer agrees to pay on behalf of the seller all pre-development costs attributable to the extension of Maryland Route 43 which shall not be applied to the payment of the purchase price. In exchange, the Foundation agreed to allow the seller the right of way for roads and easements. All but \$150,000 relating to this option was exercised as of June 30, 2006.

16. Financial Guarantee

On August 22, 2003 the Foundation entered into a Guaranty Agreement, pursuant to which it guaranteed the full and prompt payment and performance of The University of Maryland Alumni Association's obligations to the Maryland Economic Development Corporation for its building program. Future events could occur that lead to the execution of these provisions against the Foundation. This guarantee is limited to \$3 million, which shall be automatically reduced by reductions in the amount of the outstanding principal either by redemption or by the application of principal instalments. A \$402,000 principal payment was made in the year ended June 30, 2006. Management has evaluated the fair value of this guarantee and does not believe it has a material effect to the Foundation's financial position.

17. 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, 2006 and June 30, 2005, this corporation held \$10,831,000 and \$2,620,233 in assets and has a net operating gain of \$681,836 for the year ended June 30, 2006 and a net operating loss of \$143,201 for the year ended June 30, 2005 both of which are reflected in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Report of Independent Auditors on Supplementary Information

To the Board of Directors of
the University System of Maryland Foundation, Inc.:

The report on our audits of the basic consolidated financial statements of the University System of Maryland Foundation, Inc. as of and for the years ended June 30, 2006 and 2005, appears on page one of this document. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying University System of Maryland Foundation Funds schedules of program, general and administrative and fundraising expenses for the years ended June 30, 2006 and 2005, The American Journalism Review statement of financial position as of June 30, 2006, The American Journalism Review statement of activities, and The American Journal Review schedule of editorial, programming and production expenses for the year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 27, 2006

UNIVERSITY SYSTEM OF MARYLAND FOUNDATION FUNDS

University System of Maryland Foundation, Inc.
The University System of Maryland Foundation Funds
Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2006

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 45,283	\$ 7,721	\$ 580
Bad debt	-	178,416	-
Building - construction and repair	3,991,907	23,544	-
Campus sponsored programs	-	20,247	-
Conferences	44,418	11,873	8,146
Contract expense	3,664,749	-	26
Delivery	22,017	14,231	126,400
Depreciation	2,200	19,391	8,333
Dues and memberships	10,362	22,810	2,476
Educational programs	1,745,352	-	-
Equipment	1,300,793	90,843	83,088
Heritage club	-	10,548	-
Insurance	-	99,435	6,771
Custodian fees	-	81,444	-
Legal and professional	3,500	98,434	275
Miscellaneous	-	10,993	-
Office expense	25,700	21,233	7,159
Office rent	312,577	2,321	750
Personnel	1,265,907	1,856,717	420,707
Printing	171,208	170,047	248,420
Property	-	213,049	-
Public relations and promotion	149,706	1,244,300	275,949
Relocation and recruitment	1,474	35,764	6,938
Services	793,567	795,897	461,207
Student support	4,238,298	-	-
Telephone	24,357	6,360	1,479
Transfers to The University System of Maryland	8,449,846	188,609	2,967,383
Travel	345,016	67,948	47,359
Total	<u>\$ 26,608,237</u>	<u>\$ 5,292,175</u>	<u>\$ 4,673,446</u>

University System of Maryland Foundation, Inc.
The University System of Maryland Foundation Funds
Schedule of Program, General and Administrative, and Fundraising Expenses
Year Ended June 30, 2005

	Program Expenses	General and Administrative Expenses	Fundraising Expenses
Advertising	\$ 43,738	\$ 9,631	\$ 2,361
Bad debt	-	251,330	-
Building - construction and repair	1,312,770	70,393	-
Campus sponsored programs	-	6,040	-
Conferences	30,170	11,100	5,484
Contract expense	3,955,042	-	-
Delivery	24,864	8,053	70,915
Depreciation	2,103	11,587	5,337
Dues and memberships	118	42,957	2,484
Educational programs	2,058,043	-	-
Equipment	1,099,309	94,647	15,233
Heritage club	-	15,013	-
Insurance	-	112,293	6,755
Custodian fees	-	104	-
Legal and professional	-	130,114	613
Miscellaneous	219,562	10,289	-
Office expense	49,945	26,764	4,147
Office rent	71,810	2,185	335
Personnel	1,363,654	1,257,923	356,945
Printing	224,124	105,967	307,231
Property	-	120,205	-
Public relations and promotion	58,445	879,985	63,479
Relocation and recruitment	-	32,375	2,679
Services	730,998	674,355	308,772
Student support	3,920,578	-	-
Telephone	18,911	8,162	4,958
Transfers to The University System of Maryland	8,200,395	248,478	3,476,765
Travel	374,581	49,614	43,863
Total	<u>\$ 23,759,160</u>	<u>\$ 4,179,564</u>	<u>\$ 4,678,356</u>

THE AMERICAN JOURNALISM REVIEW

University System of Maryland Foundation, Inc.
The American Journalism Review
Statement of Financial Position
June 30, 2006

Assets

Current assets

Cash and cash equivalents	\$ 7,461
Accounts receivable, net of allowance for doubtful accounts of \$0	18,845
Contributions receivable	52,000
Total current assets	<u>78,306</u>

Other assets

Office equipment and furniture, net of accumulated depreciation of \$8	850
Contributions receivable- long term portion	90,106
Goodwill, net of accumulated amortization of \$63,013	72,884
Total other assets	<u>163,840</u>
Total assets	<u>\$ 242,146</u>

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 118,143
Due to University of System Maryland Foundation, Inc.	194,610
Total current liabilities	<u>312,753</u>
Deferred circulation/advertising income	86,367
Total liabilities	<u>399,120</u>

Net assets (deficit)

Unrestricted	(299,080)
Temporarily restricted	142,106
Total deficit	<u>(156,974)</u>
Total liabilities and deficit	<u>\$ 242,146</u>

University System of Maryland Foundation, Inc.
The American Journalism Review
Statement of Activities
Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Total
Revenues			
Display advertising	\$ 318,523	\$ -	\$ 318,523
Subscription income earned	73,561	-	73,561
Contributions	-	198,144	198,144
Web and newsstand sales	4,400	-	4,400
List rental income	1,095	-	1,095
Royalty income	8,021	-	8,021
Other income	32,622	-	32,622
Transfers from USMF	64,774	-	64,774
Released from restrictions	310,750	(310,750)	-
Total revenues	<u>813,746</u>	<u>(112,606)</u>	<u>701,140</u>
Expenses			
Program	827,688	-	827,688
General and administrative	120,712	-	120,712
Fundraising	20,751	-	20,751
Total expenses	<u>969,151</u>	<u>-</u>	<u>969,151</u>
Change in net assets	(155,405)	(112,606)	(268,011)
Net assets (deficit)			
Beginning of year	(143,675)	254,712	111,037
End of year	<u>\$ (299,080)</u>	<u>\$ 142,106</u>	<u>\$ (156,974)</u>

University System of Maryland Foundation, Inc.
The American Journalism Review
Schedule of Editorial, Programming and Production Expenses
Year Ended June 30, 2006

Advertising sales costs	\$ 119,572
Circular and fulfillment costs	141,005
Editorial costs	352,643
Production costs	<u>214,468</u>
Total Program	<u>\$ 827,688</u>

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Report of Independent Auditors on Supplementary Information

To the Board of Directors of
the University System of Maryland Foundation, Inc.:

The report on our audits of the basic consolidated financial statements of the University System of Maryland Foundation, Inc. as of and for the years ended June 30, 2006 and 2005, appears on page one of this document. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying University System of Maryland Foundation Funds schedules of program, general and administrative and fundraising expenses for the years ended June 30, 2006 and 2005, The American Journalism Review statement of financial position as of June 30, 2006, The American Journalism Review statement of activities, and The American Journal Review schedule of editorial, programming and production expenses for the year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 27, 2006