University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

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

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of the University System of Maryland Foundation, Inc. and Subsidiary (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

BDO USA, LLP

September 15, 2022

Consolidated Financial Statements

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, (in thousands)		2022		2021
Assets				
Current assets				
Cash and cash equivalents	$	**187**	$	163
Accounts receivable		**246**		173
Accrued interest receivable		**706**		297
Contributions receivable - current portion		**9,696**		478
Other current assets		**151**		219
Total current assets		**10,986**		1,330
Investments				
Endowment		**408,251**		397,904
Operating		**71,363**		69,294
Held for other foundations		**1,676,282**		1,628,022
Total investments		**2,155,896**		2,095,220
Other assets				
Contributions receivable, net - long term portion		**10,605**		4,043
Contributions receivable from remainder trusts		**692**		851
Angus breeding herd, trademark, logo, records, and data bank		**2,074**		1,744
Real and personal property, net		**12,341**		12,304
Other assets		**472**		471
Total other assets		**26,184**		19,413
Total assets	$	**2,193,066**	$	2,115,963
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	$	**5,488**	$	3,435
Refundable advance		**1,747**		1,336
Total current liabilities		**7,235**		4,771
Other liabilities				
Payables under split-interest agreements		**2,350**		2,555
Due to other foundations and affiliates		**1,676,575**		1,628,397
Total other liabilities		**1,678,925**		1,630,952
Total liabilities		**1,686,160**		1,635,723
Commitments and contingencies				
Net assets				
Without donor restrictions				
Undesignated		**41,304**		46,407
Designated by Board		**46,206**		40,035
		87,510		86,442
With donor restrictions		**419,396**		393,798
Total net assets		**506,906**		480,240
Total liabilities and net assets	$	**2,193,066**	$	2,115,963

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

Year ended June 30, (in thousands)	2022 Without Donor Restrictions	2022 With Donor Restrictions	2022 Total	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total
Revenues						
Contributions and grants	$ **8,032**	$ **42,541**	**50,573**	$ 22,150	$ 14,748	$ 36,898
Investment return, net	**(2,578)**	**6,446**	**3,868**	7,340	74,446	81,786
Other program income	**539**	**-**	**539**	727	1	728
Courses and conferences	**17**	**-**	**17**	8	-	8
Sales and services	**6,671**	**-**	**6,671**	5,853	-	5,853
Change in value of split-interest agreements	**-**	**127**	**127**	-	(591)	(591)
Net assets released from restrictions	**22,151**	**(22,151)**	**-**	20,548	(20,548)	-
Total revenues	**34,832**	**26,963**	**61,795**	56,626	68,056	124,682
Expenses						
Program services						
Wye Herd	**539**	**-**	**539**	369	**-**	369
Academic	**3,212**	**-**	**3,212**	3,009	**-**	3,009
Scholarships	**6,145**	**-**	**6,145**	6,642	**-**	6,642
Ad-hoc projects	**2,850**	**-**	**2,850**	1,370	**-**	1,370
Research	**2,089**	**-**	**2,089**	3,205	**-**	3,205
University/ Department support	**3,088**	**-**	**3,088**	2,570	**-**	2,570
Other programs	**6,250**	**-**	**6,250**	4,112	**-**	4,112
Total program services	**24,173**	-	**24,173**	21,277	-	21,277
Supporting services						
Management and general	**6,414**	**-**	**6,414**	5,130	-	5,130
Fundraising	**2,520**	**-**	**2,520**	1,978	-	1,978
Total supporting services	**8,934**	**-**	**8,934**	7,108	-	7,108
Total expenses	**33,107**	**-**	**33,107**	28,385	-	28,385
Change in net assets before transfers	**1,725**	**26,963**	**28,688**	28,241	68,056	96,297
Transfers to System Affiliated Foundations	**(657)**	**(1,365)**	**(2,022)**	(695)	(178)	(873)
Change in net assets	**1,068**	**25,598**	**26,666**	27,546	67,878	95,424
Net assets, beginning of year	**86,442**	**393,798**	**480,240**	58,896	325,920	384,816
Net assets, end of year	$ **87,510**	$ **419,396**	$ **506,906**	$ 86,442	$ 393,798	$ 480,240

See accompanying notes to consolidated financial statements.

University System of Maryland Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

June 30, (in thousands)	**2022**	2021
Cash flows from operating activities		
Change in net assets	$ **26,666**	$ 95,424
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized losses (gains) on investments	**29,194**	(67,092)
Change in investments held for other Foundations	**(48,260)**	(373,656)
Change in unrealized gains on investments for split interest agreements and others	**(78)**	(30)
Accretion on contribution receivable discount	**(1,400)**	(244)
Depreciation	**56**	57
Bad debt expense	**766**	205
Change in cash surrender value of life insurance	**(1)**	(3)
(Increase) decrease in assets:		
Accounts receivable	**(73)**	307
Accrued interest receivable	**(409)**	-
Contributions receivable	**(15,146)**	2,863
Other assets	**(262)**	(69)
Contributions receivable from remainder trusts	**159**	54
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**2,053**	(1,940)
Refundable advance	**411**	96
Payables under split-interest agreements	**(205)**	(180)
Due to other foundations and affiliates	**48,178**	373,576
Net cash provided by operating activities	**41,649**	29,368
Cash flows from investing activities		
Purchases of investments	**(108,638)**	(86,845)
Contributions restricted for long-term investment	**(13,321)**	(4,537)
Proceeds from sales or distribution of investments	**67,106**	56,207
Proceeds from sales of long-term investment property	**-**	1,681
Purchases of real and personal property	**(93)**	(395)
Net cash used in investing activities	**(54,946)**	(33,889)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	**13,321**	4,537
Net cash provided by financing activities	**13,321**	4,537
Increase in cash and cash equivalents	**24**	16
Cash and cash equivalents, beginning of year	**163**	147
Cash and cash equivalents, end of year	$ **187**	$ 163
Supplemental disclosure of cash flow information		
Income taxes paid	$ **161**	$ 111

See accompanying notes to consolidated financial statements.

1. Nature of Operations

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consists primarily of monies due from affiliated institutions for payments made by the Foundation on behalf of those institutions. Accounts receivable are recorded net of any allowances. There are no allowances as of June 30, 2022 and 2021. The Foundation's policy is to write-off all receivables that are deemed to be uncollectible. Accounts receivable are written off if reasonable collection efforts are unsuccessful.

Contributions Receivable

The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of June 30, 2022 and 2021. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. The Foundation's policy is to write-off all contributions receivable that are deemed to be uncollectible.

Investments

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

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

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

Valuation of Investments

The Foundation carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the Board of Directors of the Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Foundation might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

The change in net unrealized gains or losses on investment securities is reflected in investment return, net in the consolidated statements of activities and changes in net assets. All gains and losses arising from the sale, collection, or other disposition of investments are accounted for on a specific identification basis calculated as of the transaction date. For endowment assets, which are all held in a pool, investment gains or losses are distributed monthly among the individual endowment accounts on the basis of the number of units of the pool held by each individual endowment account.

See Note 3 for further details on valuation of investments.

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

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

Real and Personal Property

Real and personal property is carried at cost. The Foundation's policy is to charge all additions over $1,000 (in dollars) to the asset account, but to charge the cost of repairs, maintenance and minor betterments to operations in the year in which the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which are five years. Depreciation expense totaled $0.06 million for both the years ended June 30, 2022 and 2021. Asset and accumulated depreciation accounts are relieved when an asset is sold or otherwise disposed. Accumulated depreciation totaled $2.77 million and $2.71 million at June 30, 2022 and 2021, respectively. All artwork and land given to the Foundation are annually reviewed to determine if there is any impairment and to determine that the asset's book value is still reasonable given these assets are not depreciated.

Contributions of Real and Personal Property

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

Due to Other Foundations and Affiliates

Due to other foundations and affiliates consists of funds invested by the Foundation on behalf of other foundations and the annuities and trusts administered for other foundations. These funds are recorded on a per unit basis and managed with funds of the Foundation. The Foundation assesses the affiliated foundations an annual management fee. The fees are assessed in relation to the individual management contracts each affiliated foundation has with the Foundation and are based on the fair value of endowment and operating funds administered. The Foundation also assesses an annual management fee of 1% on the annuities and trusts. Such management fees totaled $5.3 million and $4.6 million for the years ended June 30, 2022 and 2021, respectively, and are included in sales and services in the consolidated statements of activities and changes in net assets.

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

The amounts due to other foundations and affiliates at June 30, 2022 and 2021, were as follows (in thousands):

	2022	2021
Allegany College of Maryland Foundation	$ 19,008	$ 17,935
Alumni Association International	5,893	5,968
Bowie State University Foundation	37,887	35,680
Community College of Baltimore County Foundation	15,365	14,772
Coppin State University Development Foundation, Inc.	11,686	11,601
Frederick Community College Foundation	19,617	19,649
Frostburg State University Foundation	37,252	34,749
Hagerstown Community College Foundation	17,436	15,191
Harford Community College Foundation	16,648	16,502
Howard Community College Education Foundation	-	1,479
M Club	2,472	2,764
Towson University Foundation	12,323	12,127
UMB Foundation	392,130	376,778
UMCP Foundation	650,070	622,093
University of Baltimore Foundation	4,547	4,475
University System of Maryland Common Trust	434,241	436,634
Total	$ 1,676,575	$ 1,628,397

Classification of Net Assets

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

Net assets without donor restrictions

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

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

Net assets with donor restrictions

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

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

Revenue Recognition

Contributions and Grants

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

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

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

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

Conditional promises to give are recognized as revenue when conditions on which they depend have been substantially met (refer to Note 6 for discussion of conditional promises to give and intentions).

Sales and services

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

Refundable advances

The Foundation receives grants from private institutions. Revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreements are met. Funds received in advance of satisfying obligations are recorded as refundable advances in the consolidated statements of financial position. The conditions for these refundable advances are for research activities. As of June 30, 2022 and 2021, the Foundation has refundable advances of $1.75 million and $1.34 million, respectively.

Split-Interest Agreements

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

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

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

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to the beneficiary under the terms of the agreements. The estimated annuity liabilities expected terms are based on the Internal Revenue Service (IRS) actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under the Internal Revenue Code (IRC) Section 7520 and range from 0.3% to 9.9%.

Investment Return

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

The Foundation's endowment pool reported an investment return of 2.08% and 27.21% for the years ended June 30, 2022 and 2021, respectively. The Foundation's operating pool reported an investment return of (1.25%) and 0.50% for the years ended June 30, 2022 and 2021, respectively. The investment returns are calculated using market values reported within the consolidated financial statements which include estimates as of reporting dates for private investments without a readily determinable fair value or those investments using NAV as a practical expedient. The investment returns are net of all external investment expenses such as fees charged by underlying fee managers but are reported gross of campus-specific fee arrangements with the Foundation.

Functional Allocation of Expenses

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

Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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

Income Taxes

The Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income for the years ended June 30, 2022 and 2021, therefore, no provision for income taxes has been made.

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

For the years ended June 30, 2022 and 2021, the USMF Corporation generated an immaterial amount of taxable income and a corresponding tax liability was incurred. Income tax expenses for the years ended June 30, 2022 and 2021 were immaterial. The USMF Corporation’s liability was considered immaterial and therefore was not recorded in the consolidated financial statements.

Authoritative guidance on accounting for uncertainty in income taxes defines the threshold for recognizing tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits, and also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2022 and 2021 for uncertain tax positions. The Foundation and the USMF Corporation are no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2019.

Reclassifications

Certain amounts presented in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation.

Adoption of New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The ASU changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. The ASU is effective for fiscal years beginning after December 15, 2020. Early adoption may be selected for fiscal years beginning after December 15, 2018. An entity must apply the amendments in the ASU through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions. The Foundation has adopted the ASU and the update did not have any material impact to the consolidated financial statements.

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

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires a lessee to record, 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. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. This guidance has been subsequently updated by ASUs 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2019-10, 2020-05, 2021-05 and 2021-09. This ASU is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedient available. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In March 2022, the FASB issued ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* (Topic 820). The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. This amendment also requires the following disclosures for equity securities subject to contractual sale restrictions: (1) The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet; (2) The nature and remaining duration of the restriction(s); and (3) The circumstances that could cause a lapse in the restriction(s). Early adoption is permitted, and the updates should be applied prospectively with any adjustments from the adoption of the amendments recognized in the change in net asset and disclosed on the date of adoption. For all non-public entities, this ASU is effective for fiscal years beginning after December 15, 2025.

3. Fair Value Measurements

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

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

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

Some of the Foundation's investments may be illiquid and the Foundation may not be able to vary the portfolio in response to changes in economic and other conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if the

Foundation is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

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

The following tables present the financial investments held by funds in which USMF invests. The following investments are carried at fair value as of June 30, 2022 and 2021, and are presented by the fair value hierarchy defined above (in thousands):

	June 30, 2022				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported At NAV*	Total Investments
Money-market funds and cash equivalents (1)	$ 85,795	$ -	$ -	$ -	$ 85,795
ETF's and mutual funds (2)	251,186	-	-	-	251,186
Common stock (2)	10,224	-	-	-	10,224
Separately managed accounts (3)	-	388,383	77,894	-	466,277
Investments reported at NAV (4)	-	-	-	1,342,414	1,342,414
Total investments	$ 347,205	$ 388,383	$ 77,894	$ 1,342,414	$ 2,155,896

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

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

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

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

(3) Separately managed accounts represent vehicles that are managed by external investment managers that trade and hold securities on the Foundation's behalf. The investments held in these separately managed accounts are largely publicly traded common stock and fixed income securities that are easily converted into cash, however the vehicle through which the Foundation invests is a separately managed account with a fair value that is not observable, but maintains observable inputs that external managers use to determine the fair value of the portfolio and

therefore warrants a Level 2 classification. One of the separately managed accounts invests in hedge funds with unobservable inputs and is therefore classified as Level 3.

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

Due to the limited availability of valuation data as of the Foundation’s year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. Management adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, and redemptions or returns of capital during the gap period. Management will also adjust for known performance adjustments for private investments that hold publicly traded securities. Performance adjustments ranged from (11.13%) to 0.16% for those investments on a lag. No performance adjustments are made to private risk investments on a quarter lag given the unobservability of investment performance at the time of report issuance.

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

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

Total sales of the Level 3 investments were $0 and $20.0 million for the years ended June 30, 2022 and 2021, respectively. There were no purchases in both fiscal years ended June 30, 2022 and 2021.

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

Investment Strategy	6/30/22 Fair Value	6/30/21 Fair Value	Unfunded Commitments	Term
Intermediate assets	**$ 202,179**	$ 175,036	$ 85,251	5-10 years
Public equity	**254,233**	328,941	-	Weekly-3 years
Liquid credit	**81,686**	68,712	-	Monthly-6 months
Marketable diversifiers	**65,484**	82,368	-	3 months-5 years
Private risk assets	**738,832**	618,447	341,518	10-15 years
	$ 1,342,414	$ 1,273,504	$ 426,769	

Of the fair value of $2.2 billion and $2.1 billion at June 30, 2022 and 2021, $1.98 billion and $1.92 billion, respectively, is invested in the endowment pool and $177.1 million and $173.5 million, respectively, is invested in the operating portfolio. There are $0.3 million in investments not invested with the pools at both June 30, 2022 and 2021.

The Foundation committed $1.666 billion and $1.472 billion to private capital as of June 30, 2022 and 2021, respectively, of which $1.239 billion and $1.135 billion has been called as of June 30, 2022 and 2021, respectively. These commitments are to be funded through transfers from other Level 3 investments and new cash.

4. Concentration of Credit Risk

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

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

5. Contributions Receivable

Contributions receivable, net, at June 30, 2022 and 2021 are expected to be received as follows (in thousands):

	2022	2021
Within one year	**$ 9,696**	$ 478
One to five years	**12,426**	4,464
	22,122	4,942
Less: unamortized discount	**(1,821)**	(421)
Total	**$ 20,301**	$ 4,521

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

	1-5 Years
2022	**5.38%**
2021	4.25%

Contributions receivable from remainder trusts are trusts where the Foundation is not the trustee, but an irrevocable beneficiary. These trusts are valued at approximately $0.69 million and $0.85 million as of June 30, 2022 and 2021, respectively. The difference between the fair value of contributions receivable and the carrying value is deemed to be immaterial for financial statement purposes.

6. Conditional Promises to Give and Intentions

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

Life Insurance Policies

The Foundation has been named as the beneficiary of various life insurance policies. These policies had face amounts of approximately $2.00 million at both June 30, 2022 and 2021 and these amounts are not recorded in the consolidated financial statements as they are deemed to be conditional promises to give. In addition, the Foundation is owner and beneficiary of policies with face amounts of $635,000 and $635,000 (in dollars) and cash surrender values of approximately $297,000 and $296,000 (in dollars) at June 30, 2022 and 2021, respectively, and are included in other assets in the consolidated statements of financial position.

Bequests and Intentions

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

7. Endowments

The Foundation's endowment consists of approximately 1,589 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

The Foundation's endowment funds consist of the following as of June 30, 2022 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	**$ 37,914**	**$ -**	**$ 37,914**
Funds treated as endowment funds	**20,025**	**-**	**20,025**
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	**-**	**228,258**	**228,258**
Accumulated investment gains	**-**	**137,466**	**137,466**
	$ 57,939	**$ 365,724**	**$ 423,663**

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

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

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

2022	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	**$ 47,277**	**$ 340,506**	**$ 387,783**
Investment return, net	**258**	**8,746**	**9,004**
Contributions	**671**	**29,747**	**30,418**
Others	**9,783**	**-**	**9,783**
Appropriation for spendable	**-**	**(9,006)**	**(9,006)**
Appropriation of endowment assets for expenditure	**-**	**(2,904)**	**(2,904)**
Transfers to System affiliated Foundations	**(50)**	**(1,365)**	**(1,415)**
Endowment net assets, end of year	**$ 57,939**	**$ 365,724**	**$ 423,663**

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

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. This deficit can result from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. The Foundation allows for spending on underwater funds if permitted by the donor. Future market gains will be used to restore this deficiency. As of June 30, 2022, funds with deficiencies have an original gift value of $6.21 million, a current fair value of $6.38 million and deficiency of $0.17 million. There were no underwater funds as of June 30, 2021.

Return and Risk Return Objectives

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

Strategies Employed for Achieving Objectives

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

The asset allocation target ranges inclusive of these securities as of both June 30, 2022 and 2021 is as follows:

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

The asset allocation target ranges inclusive of these securities as of June 30, 2022 and 2021 is as follows:

The endowment portfolio is constructed based on the following principles:

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

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

   b) **Public Risk Assets** constitute the primarily liquid investments. The preponderance of these investments are traded in liquid markets/exchanges. The Endowment pursues various, uncorrelated objectives across equity and credit managers and instruments. Objectives vary as strategies seek growth, value, momentum, inflation protection, and/or catalyst driven events.

   c) **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 illiquidity within these investments, they seek to earn returns above market lending rates, but not as high as private risk assets. Many strategies within this asset class have a credit or contractual yield orientation, with lower correlations to public equity markets. These include strategies such as income-oriented direct lending, opportunistic credit, and distressed debt, among other niche credit opportunities. In many cases, these investments are backed by corporate or hard-asset collateral and/or structured with a higher priority of payments within a stressed or distressed situation (i.e. senior secured) Intermediate Assets 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.

d) **Private Risk Assets** are the most illiquid portion of the portfolio, serving as the primary driver of return enhancement relative to 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 access to this capital is restricted for the term of each investment, we expect to earn a return above public market equivalent investments. These investments primarily invest in the equity of businesses as well as physical assets. A wide variety of strategies are utilized across varied geographies, sectors, structures and durations all adding up to a broadly diversified portfolios.

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 limit losses during bear markets. No more than 5% of the endowment fund's assets may be invested in one fund and no more than 10% of the endowment fund's assets may be invested in one manager, with certain exceptions to these limits as approved by the Investment Committee.

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

Spending Policy and Relationship of Spending Policy to Investment Objectives

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

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

The Board of Directors has authorized a formulaic approach as an advisory tool to determine the annual spending rate. The approach is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be between 3.5% and 4.5% of the moving average market value for the years ended June 30, 2022 and 2021, respectively. Spending rates may not violate any donor restrictions.

a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.

b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI).

After considering the formulaic approach and other relevant inputs, an annual spending rate is established. The spending rates for both fiscal years 2022 and 2021 were 4.0%. The approved spending rate for fiscal year 2023 is 4.0%.

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

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

8. Net Assets Activities

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

June 30,	**2022**	2021
Subject to expenditures for specified purpose:		
Academic programs	**$ 28,978**	$ 26,659
Student support	**2,856**	5,353
University advancement	**528**	821
Research	**20,713**	20,037
Faculty support	**597**	422
	53,672	53,292
Endowments:		
Subject to the Foundation's endowment spending policy:		
Academic programs	**73,329**	66,974
Student support	**205,501**	186,454
University advancement	**23,322**	23,646
Research	**3,977**	3,535
Faculty support	**59,595**	59,897
Total endowments:	**365,724**	340,506
Total net assets with donor restrictions	**$ 419,396**	$ 393,798

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

June 30,	**2022**	2021
Satisfaction of purpose restrictions:		
Academic programs	**$ 6,107**	$ 5,236
Student support	**4,086**	2,282
University advancement	**707**	433
Research	**1,797**	3,127
Faculty support	**448**	399
Total satisfaction of purpose restrictions	**13,145**	11,477
Restricted-purpose spending rate distributions and appropriations:		
Academic programs	**2,192**	1,931
Student support	**4,932**	5,244
University advancement	**62**	21
Research	**36**	48
Faculty support	**1,784**	1,827
Total restricted-purpose spending rate distributions and appropriations	**9,006**	9,071
Total net assets released from donor restrictions	**$ 22,151**	$ 20,548

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

June 30,	**2022**	2021
Academic programs	**$ 1,757**	$ 1,344
Scholarships	**4,354**	2,826
Department support	**9,984**	6,136
University support	**20,941**	22,553
Maryland Center for Performing Arts	**1,835**	1,939
Others	**7,335**	5,237
Total Board-designated net assets	**$ 46,206**	$ 40,035

9. Liquidity and Availability

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

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

June 30,	**2022**	2021
Cash and cash equivalents	**$ 187**	$ 163
Account receivable	**246**	173
Accrued interest receivable	**706**	297
Contributions receivable	**9,696**	478
Operating investments (Level 1 and 2)	**70,959**	68,827
Total financial assets available within one year	**81,794**	69,938
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Board-designated	**(46,206)**	(40,035)
Campus-designated projects	**(18,078)**	(12,983)
Availability of non-campus designated assets	**$ 17,510**	$ 16,920

10. Retirement Plans

The Foundation maintains a defined contribution plan for certain personnel provided by TIAA and CREF. The Foundation contributes 7.25% of the employee's compensation to a 403(b) 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 403(b) plan. The Foundation established a 457(b) plan for top executives in 2002. Total retirement plan expense for the years ended June 30, 2022 and 2021 was approximately $288,000 and $252,000 (in dollars), respectively.

11. Contributed Services and Office Space

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

12. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately $2.35 million and $2.56 million as of June 30, 2022 and 2021, respectively.

13. Related Party Transactions

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

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

14. USMF Corporation

In November 2004, the Foundation established the USMF Corporation, a for-profit subsidiary, for the purpose of holding investment assets that potentially generate unrelated business income subject to federal and state income tax. At June 30, 2022 and 2021, this corporation held $3.44 million and $3.32 million in net assets, respectively, and has a net operating income of $0.12 million and $0.27 million for the years ended June 30, 2022 and 2021, respectively, which are reflected in the consolidated financial statements.

15. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, certain expenses require allocation on a reasonable basis that is consistently applied. The personnel expenses are allocated on the basis of estimates of time and effort. All other costs directly charged. The following are functional expenses for the years ended June 30, 2022 and 2021:

- Wye Herd - This program is used to support all activities related to the Wye Herd.

- Academic – This program is used to provide supplemental educational experiences for students studying in the different departments. This program covers costs related to on and off campus learning opportunities.

- Scholarships – This program assists students who are studying in all fields with tuition, books and room and board expenses.

- Ad-hoc Projects – This program is designed to enhance department programs across the campuses by assisting in the funding of speakers, field trips and other out of the classroom experiences.

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

- University/ Department Support – This program aids with the various costs associated with maintaining and improving across the campus. Costs related to this program are related to the significant projects that will help in making the campus experience better.

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

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

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

Year ended June 30, 2022 (in thousands)	**Program Services**										
	Wye Herd	**Academic**	**Scholarships**	**Ad-hoc Projects**	**Research**	**University/ Department Support**	**Other Programs**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Expenses**
Transfers to USMF	**$ -**	**$ 2,001**	**$ 420**	**$ 406**	**$ 502**	**$ 2,255**	**$ 3,050**	**$ 8,634**	**$ 922**	**$ 1,501**	**$ 11,057**
Student support	**-**	**495**	**5,662**	**89**	**12**	**28**	**1,408**	**7,694**	**492**	**-**	**8,186**
Personnel	**204**	**-**	**-**	**174**	**83**	**-**	**19**	**480**	**2,394**	**49**	**2,923**
Outside services	**193**	**286**	**30**	**1,363**	**283**	**313**	**785**	**3,253**	**1,282**	**38**	**4,573**
Research and special projects	**-**	**129**	**-**	**17**	**1,116**	**-**	**102**	**1,364**	**1**	**-**	**1,365**
Public relations and promotions	**-**	**97**	**3**	**297**	**6**	**244**	**273**	**920**	**251**	**131**	**1,302**
Educational programs	**23**	**83**	**12**	**80**	**23**	**-**	**226**	**447**	**42**	**-**	**489**
Equipment and software rental/ maintenance	**51**	**83**	**10**	**39**	**35**	**73**	**280**	**571**	**294**	**-**	**865**
Travel	**-**	**13**	**5**	**23**	**19**	**5**	**29**	**94**	**46**	**-**	**140**
Other expenses	**68**	**25**	**3**	**362**	**10**	**170**	**78**	**716**	**690**	**801**	**2,207**
Total expenses	**$ 539**	**$ 3,212**	**$ 6,145**	**$ 2,850**	**$ 2,089**	**$ 3,088**	**$ 6,250**	**$ 24,173**	**$ 6,414**	**$ 2,520**	**$ 33,107**

Year ended June 30, 2021 (in thousands)	Program Services										
	Wye Herd	Academic	Scholarships	Ad-hoc Projects	Research	University/ Department Support	Other Programs	Total Program Services	Management and General	Fundraising	Total Expenses
Transfers to USMF	$ -	$ 1,914	$ 654	$ 269	$ 887	$ 1,497	$ 2,109	$ 7,330	$ 591	$ 1,553	$ 9,474
Student support	-	747	5,901	237	12	291	928	8,116	177	-	8,293
Personnel	76	-	-	171	59	54	48	408	2,291	20	2,719
Outside services	177	29	65	161	604	462	678	2,176	1,034	201	3,411
Research and special projects	-	137	-	138	1,282	2	87	1,646	3	-	1,649
Public relations and promotions	-	19	2	7	31	61	17	137	89	(13)	213
Educational programs	32	28	6	105	144	34	140	489	52	-	541
Equipment and software rental/ maintenance	27	34	12	74	97	65	68	377	189	5	571
Travel		4	1	-	5	17	6	33	10	-	43
Other expenses	57	97	1	208	84	87	31	565	694	212	1,471
Total expenses	$ 369	$ 3,009	$ 6,642	$ 1,370	$ 3,205	$ 2,570	$ 4,112	$ 21,277	$ 5,130	$ 1,978	$ 28,385

16. Subsequent Events

Subsequent events have been evaluated by management through September 15, 2022, the date the consolidated financial statements were issued. There were no events noted that required adjustment to or disclosure in these consolidated financial statements other than the following event. Management is aware of a potential legal claim against the Foundation. Due to the preliminary nature of the matter, neither the ultimate resolution of the matter nor an estimate of the amount or range of potential losses (if any) are determinable at this time.