

**The University of Maryland
College Park Foundation, Inc.**
Consolidated Financial Statements
June 30, 2018 and 2017

The University of Maryland College Park Foundation, Inc.

Index

June 30, 2018 and 2017

	Page(s)
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4–5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–32



Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of the University of Maryland College Park Foundation, Inc. and its subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland College Park Foundation, Inc. and its subsidiary as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Baltimore, Maryland

October 12, 2018

The University of Maryland College Park Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2018 and 2017

Assets	2018	2017
Current assets		
Cash and cash equivalents	\$ 38,362,709	\$ 44,129,606
Accounts receivable	57,064	6,725
Accrued interest receivable	667	423,763
Contributions receivable, current portion	78,941,541	42,101,656
Short term investments	27,651,733	27,593,588
Other assets	<u>51,385</u>	<u>1,080,013</u>
Total current assets	<u>145,065,099</u>	<u>115,335,351</u>
Investments		
Endowment	355,271,571	316,109,344
Operating	22,616,022	21,974,560
Investment in Proton LLC	3,750,000	6,000,000
Funds held for others	9,136,029	9,150,234
Other investments	<u>5,831,167</u>	<u>6,455,988</u>
Total investments	<u>396,604,789</u>	<u>359,690,126</u>
Other assets		
Contributions receivable, long-term portion	84,708,470	46,300,159
Property and equipment, net	27,953,632	16,550,932
Leased real estate under capital leases, net	3,552,472	3,609,143
Other receivables-long term	<u>564,154</u>	<u>580,367</u>
Total other assets	<u>116,778,728</u>	<u>67,040,601</u>
Total assets	<u>\$ 658,448,616</u>	<u>\$ 542,066,078</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,437,728	\$ 10,508,565
Deferred income	<u>1,337,531</u>	<u>1,224,495</u>
Total current liabilities	<u>2,775,259</u>	<u>11,733,060</u>
Other liabilities		
Funds held for others	9,136,013	9,150,391
Capital lease liability	3,552,472	3,636,079
Annuities payable	<u>2,239,812</u>	<u>2,592,685</u>
Total other liabilities	<u>14,928,297</u>	<u>15,379,155</u>
Total liabilities	<u>17,703,556</u>	<u>27,112,215</u>
Unrestricted	4,703,621	9,025,894
Temporarily restricted	265,032,466	233,190,630
Permanently restricted	<u>371,008,973</u>	<u>272,737,343</u>
Total net assets	<u>640,745,060</u>	<u>514,953,867</u>
Total liabilities and net assets	<u>\$ 658,448,616</u>	<u>\$ 542,066,082</u>

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 12,300	\$ 70,114,502	\$ 98,606,032	\$ 168,732,834
Investment income, net of fees	5,233,260	(1,517,331)	-	3,715,929
Other program income	104,157	-	-	104,157
Sales and services	648,703	-	-	648,703
Other income	1,859,637	-	-	1,859,637
Courses and conferences	8,101	-	-	8,101
Realized and unrealized gains on investments, net	(2,522,586)	25,726,283	-	23,203,697
Change in valuation of split-interest agreements	(6,995)	(258,854)	(334,402)	(600,251)
Net assets released from restrictions	62,222,764	(62,222,764)	-	-
Total revenues	67,559,341	31,841,836	98,271,630	197,672,807
Expenses				
Program	68,552,350	-	-	68,552,350
General and administrative	3,118,506	-	-	3,118,506
Fundraising	210,754	-	-	210,754
Total expenses	71,881,610	-	-	71,881,610
Change in net assets	(4,322,269)	31,841,836	98,271,630	125,791,197
Net assets				
Beginning of year	9,025,891	233,190,629	272,737,343	514,953,863
End of year	\$ 4,703,622	\$ 265,032,465	\$ 371,008,973	\$ 640,745,060

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

The University of Maryland College Park Foundation, Inc.
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ -	\$ 46,839,871	\$ 16,340,401	\$ 63,180,272
Investment income, net of fees	5,033,458	(2,338,190)	-	2,695,268
Other program income	107,983	-	-	107,983
Sales and services	798,816	-	-	798,816
Other income	1,463,693	-	-	1,463,693
Courses and conferences	132,729	-	-	132,729
Realized and unrealized gains on investments, net	855,822	34,028,766	-	34,884,588
Change in valuation of split-interest agreements	1,827	(284,246)	112,893	(169,526)
Net assets released from restrictions	50,349,206	(50,349,206)	-	-
Total revenues	<u>58,743,534</u>	<u>27,896,995</u>	<u>16,453,294</u>	<u>103,093,823</u>
Expenses				
Program	55,482,971	-	-	55,482,971
General and administrative	3,382,842	-	-	3,382,842
Fundraising	210,725	-	-	210,725
Total expenses	<u>59,076,538</u>	<u>-</u>	<u>-</u>	<u>59,076,538</u>
Change in net assets	(333,004)	27,896,995	16,453,294	44,017,285
Net assets				
Beginning of year	<u>9,358,898</u>	<u>205,293,635</u>	<u>256,284,049</u>	<u>470,936,582</u>
End of year	<u>\$ 9,025,894</u>	<u>\$ 233,190,630</u>	<u>\$ 272,737,343</u>	<u>\$ 514,953,867</u>

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

The University of Maryland College Park Foundation, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 125,791,196	\$ 44,017,285
Adjustment to reconcile change in net assets to cash and cash equivalents provided by operating activities		
Net realized and unrealized (gains) losses on investments	(23,203,697)	(34,884,588)
Depreciation	411,663	240,204
Decrease (increase) in accounts receivable	(50,339)	33,593
Change in valuation of split-interest agreements	600,251	169,527
Increase (decrease) in deferred income	113,037	(511,405)
Decrease (increase) in accrued interest receivable	423,097	(271,595)
Decrease (increase) in contributions receivable	(75,248,195)	3,040,475
Decrease in other assets	1,027,995	52,966
(Decrease) increase in other receivables-long term	(14,378)	15,243
(Decrease) increase in accounts payable and accrued expenses	(9,070,838)	6,734,807
Contributions restricted for long-term investment	(98,606,032)	(16,340,401)
Net cash and cash equivalents (used)/provided by operating activities	<u>(77,826,240)</u>	<u>2,296,111</u>
Cash flows from investing activities		
Purchases of investments	(21,931,547)	(27,572,373)
Sales of investments	6,986,637	21,848,724
Acquisition of life estate assets	-	(974,000)
Purchase of short term investments	-	(415,795)
Demolition of property	-	13,912
Purchase of property and equipment	(11,165,299)	-
Net cash and cash equivalents used in investing activities	<u>(26,110,209)</u>	<u>(7,099,532)</u>
Cash flows from financing activities		
Decrease in annuities payable	(352,873)	(506,948)
Capital Lease principal payments	(83,607)	(81,171)
Contributions restricted for long-term investment	98,606,032	16,340,401
Net cash and cash equivalents provided by financing activities	<u>98,169,552</u>	<u>15,752,282</u>
Net increase/(decrease) in cash and cash equivalents	(5,766,897)	10,948,861
Cash and cash equivalents		
Beginning of year	<u>44,129,606</u>	<u>33,180,745</u>
End of year	<u>\$ 38,362,709</u>	<u>\$ 44,129,606</u>

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

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. Nature of Operations

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

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

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

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

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

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

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

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

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

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

On January 20, 2017 the Terrapin Development Company, LLC (TDC) was formed as a limited liability company under the laws of the State of Maryland with the Foundation being the sole manager and sole member. On July 1, 2017 the Operating Agreement was amended to admit the University of Maryland, College Park (UMCP) as a class A member. This Operating Agreement amendment effectively transferred \$2 million in cash and approximately \$28.5 million of the Foundation’s tenant deposits, land, buildings and capital lease assets to TDC, as part of a strategic real estate development plan created in cooperation with the University. UMCP plans to eventually contribute 28.5 acres of property to TDC in the future as market conditions warrant; however, UMCP had not contributed any real property to TDC as of June 30, 2018.

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

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 Note 1, the consolidated financial statements include the accounts of the Foundation and the applicable LLCs, after elimination of all significant intercompany accounts and transactions.

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Cash and Cash Equivalents

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

Pledges Receivable

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted support when the funds are pledged. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value and allowance for doubtful accounts.

Valuation of Investments

The Foundation carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the University System of Maryland Foundation's ("USMF") investment manager under the general oversight of the Board of Trustees of the UMCP Foundation after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability, (or absence thereof) cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Foundation might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

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

See Note 3 for further details on valuation of investments.

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30. This is primarily composed of revenue for grants paid upfront and before the work and final reports have been submitted to the grantors. Revenue is only recognized as expenses are disbursed and the unspent amounts are recorded as deferred revenue. UMCPF recorded deferred revenue of \$1,337,531 and \$1,224,495 for the years ended June 30, 2018 and 2017, respectively.

Funds Held for Others

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

In January 2015 UMCPF signed a Funds Management Agreement with the trustee of a Charitable Remainder Unitrust whose ultimate beneficiary is UMCPF. In August of 2016, the Trustee of the Unitrust transferred \$9 million to UMCPF to be held and invested per the terms of the Funds Management Agreement. These Unitrust funds were the only funds held for others by UMCPF as of June 30, 2018 and June 30, 2017.

The value of funds held for others by UMCPF at June 30, 2018 and June 30, 2017 was \$9,136,013 and \$9,150,391, respectively. The amount held for others in fiscal years 2018 and 2017 consisted of marketable securities held in an investment account for the Charitable Remainder Unitrust discussed in the above paragraph.

Split-Interest Agreements

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

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

Amortization of the related discount and revaluation of expected cash flows are recognized as changes in the value of split-interest agreements in the year in which they occur. The change in valuation of split-interest agreements was (\$600,250) and (\$169,526) for fiscal years ended June 30, 2018 and 2017, respectively.

The Foundation recognizes a liability for the portion of the proceeds under the split-interest agreements to be paid to beneficiaries under the terms of the agreements. The estimated annuity liabilities expected terms are based on IRA actuarial tables. The discount rates used to compute the present value of these receivables are the original discount rates used at the time of the gift under IRC Section 7520(a) and ranged from 1.4% to 6.2%.

The total market value of split-interest agreements held by the custodian of such investments was \$4,857,167 and \$5,481,988 for fiscal years ended June 30, 2018 and 2017, respectively.

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The total amounts payable related to split-interest agreements at June 30, 2018 and 2017 were \$2,239,812 and \$2,592,685, respectively.

In fiscal year 2017, UMCPF entered into two separate Retained Life Estate agreements whereby grantors executed deeds giving the Foundation a remainder interest in each grantor's respective residential real property, while the grantors retained the right to occupy and maintain the properties during their respective lifetimes. The independently appraised values of the residential properties are recorded as other investments on the Statement of Financial Position totaling \$974,000, with a total of \$132,548 recorded as deferred income to adjust these gifts to their actuarially calculated values based upon each grantor's respective life contingency.

Property

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

	2018	2017
Land	\$ 11,860,144	\$ 11,860,144
Buildings and improvements	16,751,850	4,946,336
Real Estate under Capital Lease	3,552,472	3,783,405
Artwork	100,000	100,000
	<u>32,264,466</u>	<u>20,689,885</u>
Less: Accumulated depreciation	<u>(758,362)</u>	<u>(529,810)</u>
Property (net) - Grand Total	<u>\$ 31,506,104</u>	<u>\$ 20,160,075</u>

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

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

Capital Lease Obligation

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

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Year ending June 30,	
2019	214,784
2020	221,228
2021	227,865
2022	234,699
Thereafter	<u>7,961,872</u>
Total minimum lease payments	<u>\$ 8,860,448</u>

UMCPF recorded straight line depreciation expense of \$411,663 and \$240,204 for the years ended June 30, 2018 and 2017, respectively.

Investment Income

The Foundation investment income net of investment manager fees. The following schedule reflects the gains and fees for the years ending June 30, 2018 and 2017.

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income gross of fees	\$ 5,265,856	\$ 3,688,619	\$ -	\$ 8,954,475
Fees	<u>(34,208)</u>	<u>(5,204,338)</u>	<u>-</u>	<u>(5,238,546)</u>
Investment income, net of fees as recorded in the consolidated statement of activities	<u>\$ 5,231,648</u>	<u>\$ (1,515,719)</u>	<u>-</u>	<u>\$ 3,715,929</u>
2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income gross of fees	\$ 5,067,261	\$ 2,607,560	\$ -	\$ 7,674,821
Fees	<u>(33,780)</u>	<u>(4,945,773)</u>	<u>-</u>	<u>(4,979,553)</u>
Investment income, net of fees as recorded in the consolidated statement of activities	<u>\$ 5,033,481</u>	<u>\$ (2,338,213)</u>	<u>\$ -</u>	<u>\$ 2,695,268</u>

Expenses

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

Administrative Fees

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

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Investments - Operating

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

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

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

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

Professional investment fees are deducted by the investment manager prior to the distribution of income. In addition, the Foundation annually assesses each endowment account a fee for management and administration expenses at the rate of 1.6% of the market value of assets managed. If an individual endowment account is underwater (cumulative cash contributions exceed market value) at the spendable income valuation date, no fee is assessed by the Foundation. The Foundation paid 30 basis points (0.30%) of the market value to USMF for endowment investment management services for the fiscal years ending June 30, 2018 and June 30, 2017 respectively, in accordance with the terms of the prior investment management agreement that was in effect for both fiscal years.

The management fee charged to the operating account by USMF of \$92,007 and \$79,219 for the years ended June 30, 2018 and 2017, respectively, is included in Investment income, net of fees in the Consolidated Statements of Activities and Changes in Net Assets. In no event, shall the fees collected by USMF from the Foundation exceed the actual costs associated with investment management services provided by USMF in accordance with the terms of the investment management agreement.

Investments - Endowment

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

The management fee charged to the endowments by USMF of \$929,170 and \$835,867 for the years ended June 30, 2018 and 2017, respectively, is included in Investment income, net of fees in the Consolidated Statements of Activities and Changes in Net Assets.

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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. All unrestricted funds are for the use of the Foundation's supporting activities.

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 one of these net asset classifications depending on donor restrictions.

Classification of Gifts

The Foundation reports gifts of cash and other assets as restricted support held in separate accounts if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, 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.

Estimates

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

Income Taxes

Foundation is organized and operated exclusively for charitable and educational purposes within the meaning of the provisions of section 501(c) (3) of the Internal Revenue Code. Since the Foundation had no material unrelated business income for the years ended June 30, 2018 and 2017, no provision for income taxes has been made. TDC LLC has elected to be treated as a pass through entity for income tax purposes and all taxable items flow through to its members. The Foundation will be filing a form 990T for its share of taxable income (if any).

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The FASB issued guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. No asset or liability has been recorded as of June 30, 2018 or June 30, 2017 for uncertain tax positions. The Foundation is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal year ended June 30, 2014.

Terrapin Development Company Consolidation

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

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

Assets	
Cash and cash equivalents	\$ 2,116,614
Property and equipment, net	29,778,935
Other Assets	57,064
Liabilities and Net Assets	
Capital Lease	3,552,472
Other Liabilities	115,759
UMCPF Equity (Unrestricted Net Assets)	\$ 28,284,382
Revenue	1,567,478
Expenses	<u>1,596,521</u>
Net Loss (Change in Unrestricted Net Assets)	\$ (29,043)

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Recent Accounting Pronouncements Not Yet Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Foundation’s financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted although certain optional practical expedients are available for periods prior to adoption. Management is evaluating the impact the adoption of this standard will have on the consolidated financial statements beginning in fiscal year 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230 – Restricted Cash)*. The ASU requires presentation of the total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. The ASU clarifies that internal transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity’s operating, investing, and financing activities, and therefore, the details of those transfers should not be presented in the statement of cash flows. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018. Early adoption is permitted. Management is prepared to implement this ASU during FY19 and does not foresee significant impact on the consolidated financial statements.

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

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

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

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

3. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement* (ASC820) defines fair value, requires disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the inputs to the valuations of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following three-level hierarchy classifies the inputs used to determine fair value:

- | | |
|---------|---|
| Level 1 | Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category include listed equities and listed mutual funds. |
| Level 2 | Pricing inputs include market data which is readily available, regularly distributed or updated, reliable, verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. Investments which are generally included in this category include less liquid and restricted equity securities and fixed income securities. |
| Level 3 | Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in private equity and investment funds as well as off-shore hedge funds. In addition, the Foundation depends on USMF's investment office and the general partner or the investment manager of the investment for pricing information. In general, the investment funds and partnerships that are within Level 3 are subject to annual audits. |

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

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 following tables present the financial investments carried at fair value as of June 30, 2018 and 2017, by the fair valuation hierarchy defined above:

	June 30, 2018			
	Quoted in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs (Level 3)	Total Fair Value
Short term investments	\$ 27,651,733	\$ -	\$ -	\$ 27,651,733
Investments				
Cash equivalents and short term securities ⁽¹⁾	635,051	-	-	635,051
Mutual Funds ⁽²⁾	4,516,929	-	-	4,516,929
Mutual Funds ⁽²⁾ - Funds held for others	8,841,219	-	-	8,841,219
Bonds ⁽³⁾	-	100,000	-	100,000
Maryland Proton Treatment Center, LLC ⁽⁴⁾	-	-	3,750,000	3,750,000
Investment in special strategies - USMF ⁽⁵⁾	-	-	377,787,594	377,787,594
Retained Life Estates - Real Property	-	841,453	-	841,453
Total investments	\$ 13,993,199	\$ 941,453	\$ 381,537,594	\$ 396,472,246
	June 30, 2017			
	Quoted in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs (Level 3)	Total Fair Value
	\$ 27,593,588	\$ -	\$ -	\$ 27,593,588
Short term investments				
In Cash equivalents and short term securities ⁽¹⁾	919,291	-	-	919,291
Mutual Funds ⁽²⁾	4,963,622	-	-	4,963,622
Mutual Funds ⁽²⁾ - Funds held for others	8,749,309	-	-	8,749,309
Bonds ⁽³⁾	-	200,000	5,000,000	5,200,000
Maryland Proton Treatment Center, LLC ⁽⁴⁾	-	-	1,000,000	1,000,000
Investments in special strategies - USMF ⁽⁵⁾	-	-	337,883,904	337,883,904
Retained Life Estates - Real Property	-	974,000	-	974,000
Total investments	\$ 14,632,222	\$ 1,174,000	\$ 343,883,904	\$ 359,690,126

There were no transfers of assets between Level 1, 2 or 3 classifications for the year ended June 30, 2018 and 2017.

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

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

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

recorded as Accrued Interest Receivable on the Statement of Financial Position for the fiscal year ending June 30, 2017.

- d. Current State of MPTC – In August of 2018, MPTC was re-capitalized using a municipal bond offering. All equity positions and bond holder positions were reduced in value in total by 35%. The Foundation's position was reduced by 48%. The converted bonds will pay interest starting at various future dates depending on the type and subordination. The effect of these transactions are recorded in these financial statements. On September 24th, 2018, these converted bonds were transferred into the Foundation's investment account at Woodbury Financial Services and are being held for future use. See subsequent event footnote # 14.

- (5) Investments in special strategies are invested by USMF on behalf of UMCPF in a unitized portfolio, which utilizes an array of different investment strategies. The Foundation invests in the unitized portfolio to benefit from economies of scale to gain access to the underlying investment strategies. The Foundation has a unitized ownership interest in this portfolio and does not have direct ownership of the underlying investments in the portfolio. USMF has not classified itself as an investment company. The investment in special strategies-USMF is presented in Level 3 in the chart above as the portfolio does not trade in an active market, pricing inputs are unobservable and the portfolio is subject to certain redemption restrictions consistent with those of the underlying investments in the portfolio, as discussed below, and subject to the discretion of the management of USMF. The fair value of the special strategies-USMF investment has been estimated using the net asset value per share of the portfolio based on unobservable inputs and relies on underlying general partners and investment managers for pricing information. The components of and a description of the investment strategies, as disclosed by USMF, of the special strategies-USMF portfolio are as follows:

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

These include amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. Money-market and short-term investments are unitized to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The unitized portfolio has not experienced such losses on these funds. Money-market funds and short-term investments represents approximately 8.5% and 16.6% of the total investment held by USMF at June 30, 2018 and 2017, respectively.

Investments in Equity Securities and Mutual Funds

In general, equity securities and mutual funds traded on national securities exchange are valued at the last quoted sales price, except securities traded on the NASDAQ Stock Market, Inc. ("NASDAQ"), which are valued in accordance with the NASDAQ Official Closing Price. The unitized portfolio invests in equity securities to gain exposure to the overall direction of global equity markets. Equity Securities and Mutual Funds represents approximately 29.3% and 28.4% of the total investment held by USMF at June 30, 2018 and 2017, respectively.

Managed accounts investing in U.S. treasury notes and bonds, U.S. agency securities corporate and municipal bonds, and collateralized mortgage obligations and mortgage backed securities.

Fair value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. The unitized portfolio invests in these assets to protect in the event of sudden

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

interest rate changes as well as to maintain liquidity for spending needs and unfunded commitment liability. Investments in U.S. treasury notes and bonds, U.S. agency securities corporate and municipal bonds, and collateralized mortgage obligations and mortgage backed securities represents approximately 0% and 0.8% of the total investment held by USMF at June 30, 2018 and 2017, respectively.

Investments in Absolute Return

Absolute return investments track the purchase and sale of shares in companies that are subject of publically announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. Notice period for redemption of investments ranges from one month to six months. There are no outstanding unfunded commitments to this asset category. Absolute Return investments represents approximately 12.9% and 19.3% of the total investments held by USMF at June 30, 2018 and 2017, respectively.

Investments in Long/Short Strategies

Long/short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles and investments that may be subject to early withdrawal penalties. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one month to six months. There are no outstanding commitments to this asset category. Investments in long/short strategies represents approximately 15.6% and 17.2% of the total investments held by USMF at June 30, 2018 and 2017, respectively.

Private Capital Investments

Private capital consists of private equity and venture capital investments. Private capital investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in nonmarketable securities of new companies or companies considered to be in the early stages of growth. 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. Investments in private equity investment companies and funds are presented at fair value as approved by the unitized portfolio's management based, in part, on information and valuations provided by the general partner of the partnerships or investment manager. The general partner or manager generally values their investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third part transactions in the private market or the fair value deemed appropriate by the unitized portfolio's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents the unitized portfolio's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments and decreased by distributions from the partnerships and the partner's share of net losses. Redemption of these investments is left to the discretion of the general partner/manager of the

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

funds. Distributions from each fund will be received as the underlying investments are liquidated. Private Capital investments represents approximately 33.7% and 31.7% of the total investments held by USMF at June 30, 2018 and 2017, respectively.

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

	Bonds	Maryland Proton Treatment Center, LLC - Equity	Investments in special strategies - USMF
Fair value recorded at June 30, 2016	\$ 5,000,000	\$ 1,000,000	\$ 306,984,255
Realized and unrealized gains (losses), net	-	-	34,791,475
Purchase of portfolio investments	-	-	16,250,256
Proceeds from sale or distribution of investments	-	-	(20,142,082)
Fair value recorded at June 30, 2017	5,000,000	1,000,000	337,883,904
Realized and unrealized gains (losses), net	(1,250,000)	(1,000,000)	26,136,420
Purchase of portfolio investments	-	-	29,023,033
Proceeds from sale or distribution of investments	-	-	(15,255,763)
Fair value recorded at June 30, 2018	\$ 3,750,000	\$ -	\$ 377,787,594

Realized and unrealized gains (losses) recorded for Level 3 investments are included in "Realized and unrealized gains on investments, net" on the Statement of Activities and Changes in Net Assets. Total change in unrealized gains for Level 3 investments were \$12,446,145 and \$9,651,818 for the years ending June 30, 2018 and 2017, respectively.

(6) In fiscal year 2017, UMCPF entered in two separate Retained Life Estate agreements whereby grantors executed deeds giving the Foundation a remainder interest in each grantor's respective residential real property, while the grantors retained the right to occupy and maintain the properties during their respective lifetimes. The independently appraised values of the residential properties are recorded as other investments on the Statement of Financial Position totaling \$974,000, with a total of \$132,548 recorded as deferred income to adjust these gifts to their actuarially calculated values based upon each grantor's respective life contingency.

4. Management of Investments

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

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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

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

USMF serves as custodian and investment manager of approximately 95.7% and 93.9% of the Foundation's Investments as of June 30, 2018 and 2017, respectively. Investments of trusts and annuities are separately invested in exchange-traded funds. Approximately \$4.9 million, or about 1.14% of the Foundation's investment assets and approximately \$5.5 million, or about 1.58% of the Foundation's investment assets, are directly invested by management into these funds as of June 30, 2018 and 2017, respectively. The remaining 3.2% and 4.6% balance of UMCPF's investment assets in fiscal year 2018 and fiscal year 2017 respectively, are invested in individually targeted investments (Note 3 MPTC), investment assets held for others and Retained Life Estates.

5. Concentration of Credit Risk

The Foundation maintains cash in bank accounts in amounts that may exceed Federally insured limits at times. The Foundation has not experienced any losses in these accounts in the past and believes that it is not exposed to significant credit risks because the accounts are deposited with major financial institutions. The total deposits at the institutions may exceed the amount guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized.

6. Contributions Receivable

As of June 30, 2018 and 2017, contributors have unconditionally promised to give \$163,098,935 and \$88,401,815 to the Foundation, respectively. Promised contributions are due as follows as of June 30:

	2018	2017
Due within one year	\$ 93,779,580	\$ 48,133,237
Due within 2-5 years	101,133,878	46,694,852
More than five years*	<u>9,667,711</u>	<u>12,352,388</u>
	204,581,169	107,180,477
Less: Allowance for doubtful accounts	(32,966,370)	(13,520,351)
Less: Discount to present value	<u>(8,515,864)</u>	<u>(5,258,310)</u>
Total contributions receivable, net	<u>\$ 163,098,935</u>	<u>\$ 88,401,816</u>

* Includes trusts held by third parties valued at \$551,007 and \$567,552 at June 30, 2018 and 2017, respectively.

The discount rate used to calculate the present value component at June 30, 2018 and 2017 was 4.09% and 3.22%, respectively, for those contributions due in zero to five years and for contributions due in more than five years, the discount rate used to calculate the present value component at June 30, 2018 and 2017 was 5.00% and 4.25%, respectively.

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

7. Conditional Promises to Give and Intentions (Unaudited)

Contributors have informed the Foundation of intentions to give in excess of \$105,000,000 and \$4,000,000 during the fiscal years ended June 30, 2017 and 2016, respectively. These intentions relate primarily to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion. Therefore, they are appropriately not recorded in the accompanying financial statements.

8. Endowments

The Foundation's endowment consists of over 1,200 individual accounts established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with MUPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Endowment net asset composition by type of fund as of June 30 noted below:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2018				
Donor-restricted endowment funds	\$ 285	\$ 66,235	\$ 371,009	\$ 437,529
Total endowment funds	<u>\$ 285</u>	<u>\$ 66,235</u>	<u>\$ 371,009</u>	<u>\$ 437,529</u>
<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2017				
Donor-restricted endowment funds	\$ -	\$ 52,127	\$ 272,737	\$ 324,864
Total endowment funds	<u>\$ -</u>	<u>\$ 52,127</u>	<u>\$ 272,737</u>	<u>\$ 324,864</u>

Changes in endowment net assets for the year ended June 30:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2018				
Endowment net assets, beginning of year	\$ -	\$ 52,127	\$ 272,737	\$ 324,864
Investment return				
Investment income	-	27,648	-	27,648
Endowment management and investment fees	-	(5,023)	-	(5,023)
Net appreciation/(depreciation) (realized and unrealized)	-	-	(334)	(334)
Subtotal	-	74,752	272,403	347,155
Gifts	-	-	98,606	98,606
Appropriation of endowment assets for expenditure	-	(8,575)	-	(8,575)
Transfers to reclass purpose	285	58	-	343
Endowment net assets, end of year	<u>\$ 285</u>	<u>\$ 66,235</u>	<u>\$ 371,009</u>	<u>\$ 437,529</u>

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2017				
Endowment net assets, beginning of year	\$ -	\$ 31,917	\$ 256,284	\$ 288,201
Investment return				
Investment income	-	33,815	-	33,815
Endowment management and investment fees	-	(4,764)	-	(4,764)
Net appreciation (realized and unrealized)	-	-	113	113
Subtotal	-	60,968	256,397	317,365
Gifts	-	-	16,340	16,340
Appropriation of endowment assets for expenditure	-	(8,859)	-	(8,859)
Transfers to reclass purpose	-	18	-	18
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 52,127</u>	<u>\$ 272,737</u>	<u>\$ 324,864</u>

Permanently Restricted Net Assets - Endowment Funds

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

<i>(in thousands)</i>	2018	2017
Academic programs	\$ 240,666	\$ 153,308
Scholarship/fellowship	98,480	92,145
University advancement	21,083	18,155
Student support	4,042	3,249
Facility and advancement	3,343	2,664
Research	3,227	3,172
Athletics	168	44
	<u>\$ 371,009</u>	<u>\$ 272,737</u>

Temporarily Restricted Net Assets - Endowment Funds

The portion of temporarily restricted net assets related to the endowment funds as of June 30:

<i>(in thousands)</i>	2018	2017
Academic support	\$ 31,261	\$ 23,874
Scholarship	20,371	15,144
Institutional support	13,119	11,985
Student and athletic support	791	611
Research	693	513
	<u>\$ 66,235</u>	<u>\$ 52,127</u>

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. At year end for fiscal year 2018, ten (10) individual endowments had market values below their respective donated principal balances (donated principal or “corpus”) and at year end for fiscal year 2017, three (3) individual endowments had market values below their respective donated principal balances (donated principal or “corpus”). These “underwater” endowments had market value deficits of \$8,315 and \$6,644 as of June 30, 2018 and 2017, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Return Objectives and Risk Parameters

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

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

Strategies Employed for Achieving Objectives

To satisfy its objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation, through its own-managed funds and USMF managed funds, targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

USMF employs a diversified asset allocation that allows for investment in public risk assets (liquid investments), private risk assets (illiquid portion of the portfolio), and safe assets (cash and US Government securities). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overlay class (liquid, exchange traded instruments that aim to hedge against undesired risk). The asset allocation target ranges inclusive of these securities is as follows:

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Asset Class	Policy Target	Minimum	Maximum
Safe Assets	2 %	0 %	25 %
Intermediate Assets	15 %	15 %	25 %
Portfolio Overlay	0 %	0 %	5 %
Public Risk Assets	48 %	45 %	75 %
Private Risk Assets	35 %	20 %	40 %

The Endowment Portfolio is constructed based on the following principles:

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

- a. **Safe Assets** are defined as investments with little-to-no principal risk. These assets are U.S. Government securities and cash. This portion of the portfolio is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress.
- b. **Intermediate Assets** represent private, finite life investment vehicles whose term is generally longer than public risk assets, but shorter than private risk assets. Since there is modest liquidity within these investments, they seek to earn returns above market lending rates, but not as high as private risk assets. Many strategies within this asset class have a credit or contractual yield orientation, with lower correlations to public equity markets. These include strategies such as direct lending, distressed lending/sales, and niche credit opportunities. In many cases, collateral is attached to these investments and/or they seek a higher priority of payments within a stressed or distressed environment. They offer idiosyncratic return /risk profiles that are generally more predictable and consistent; thereby aiming to reduce overall portfolio risk in tandem with earning attractive returns.
- c. **The Portfolio Overlay** is another line of defense for capital preservation. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. This is achieved through a number of liquid exchange traded instruments that aim to hedge against undesired risks. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as needed, opportunistic basis.
- d. **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. Within this section of the portfolio, a number of uncorrelated objectives across equity and credit managers and instruments are sought.

Orientations vary as they seek growth, value, momentum, inflation protection, and/or catalyst driven events. Some of these investments will track closely to market indices, with a goal to earn or exceed the benchmark return, but with less risk than the benchmark. Other investments will closely follow a market benchmark, as they seek to offer broad diversification for the aggregate portfolio, while still earning high risk adjusted returns, while muting general equity market volatility when possible.

- e. **Private Risk Assets** are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

- (2) **Diversification:** By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The Investment Committee, however, may make an exception in special circumstances.
- (3) **Rebalancing:** In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations ranges.
- (4) **Spending Policy and Relationship of Spending Policy to Investment Objectives**

The Foundation has a spending rate rule for its investments held for endowment in order to preserve purchasing power of the assets, to protect against erosion of nominal principal, and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. 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 4.5% and 3.5% of the moving average market value for the years ended June 30, 2018 and 2017. 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 2018 and 2017 were 4.5%. The approved spending rate for 2019 is 4.4%.

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Newly created individual endowment funds that have been funded at a minimum endowment levels but have been invested for less than one year receive partial spendable income of 75%, 50% or 25% of the full spending rate based upon the financial quarter in which the gift was received, Q1, Q2 or Q3 respectively.

In establishing this policy, the Spending Policy Committee considered the long-term expected return on the Endowment and its goal of preserving principle. Accordingly, over the long term, the Foundation 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 2 years of unspent appropriated funds as of June 30. A special request must be made to carry-over unspent appropriated funds from more than two prior years into subsequent fiscal years.

9. Restricted Net Asset Activity

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

<i>(in thousands)</i>	2018	2017
Academic programs	\$ 143,297	\$ 126,709
Scholarship/fellowship	55,876	44,407
Facility and advancement	35,992	34,994
Research	14,151	13,926
Student support	7,466	7,950
Athletics	6,280	2,997
University advancement	1,974	2,208
	<u>\$ 265,036</u>	<u>\$ 233,191</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Expenditures on permanent 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:

<i>(in thousands)</i>	2018	2017
Facility advancement	\$ 17,302	\$ 10,376
University advancement	13,566	4,552
Academic programs	13,248	10,526
Scholarship/fellowship	12,189	17,158
Student support	2,276	1,492
Research	2,026	2,454
Athletics	1,616	3,790
	<u>\$ 62,223</u>	<u>\$ 50,348</u>

The University of Maryland College Park Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

10. Charitable Gift Annuity Requirements

As required by the State of Maryland, the Foundation internally reserves cash and investments associated with annuity liabilities of approximately \$2,239,812 and \$2,592,685 as of June 30, 2018 and 2017, respectively.

11. Related Party Transactions

Various members of the Foundation may also be members of the Board of Trustees of the investment manager, USMF and/or TDC.

The Foundation has no employees. The University tracks and administers all payroll and fringe benefit costs for its employees who substantially support the Foundation. The Foundation reimburses the University for the salary and benefit costs on an annual basis, estimating the salary costs of individuals devoting effort to the Foundation, and applying a 33% fringe rate in addition to the salary costs for fiscal years ended June 30, 2018 and 2017.

The Foundation supports commitments for fund raising expenses of the University, as per the affiliation agreement with UMCP. The amount paid by the Foundation to the University was \$900,000 and \$889,297 for the fiscal years ended June 30, 2018 and 2017, respectively.

12. Commitments and Contingent Liabilities

During the course of its operations, the Foundation may be exposed to various forms of litigation, claims and assessments. As of June 30, 2018, management was not aware of any matters that could have a material effect on the its financial position, change in net assets, or cash flows.

13. Terrapin Development Company

TDC, LLC formation was discussed in detail in footnote # 1. Effective July 1, 2017, the day-to-day operations and property management of the real estate assets formerly held by UMCPF are being managed by an independent staff selected by and reporting directly to TDC's Board of Directors. The results of TDC's operations have been consolidated within these financial statements. The Foundation and the University are members and jointly share in the results of its operations based upon the percentage of fair value contribution as stipulated in the terms of the amended and restated operating agreement. As of June 30, 2018, the University has yet to contribute any physical property to TDC.

Profits, losses and cash flows are allocated to each member/partner as prescribed in the Amended and restated Operating Agreement.

14. Subsequent Events

Maryland Proton Treatment Center

On September 24th 2018, the Foundation received the re-capitalized converted MPTC bonds which were transferred into the Foundations' investment account and are being held at Woodbury Financial Services. The Foundation plans to hold onto these bonds for long term investment purposes. The valuation of these converted bonds is consistent with the disclosure of the value as presented on the consolidated financial statements as presented above.

The University of Maryland College Park Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Subsequent events have been evaluated by management through October 26, 2018, which is the date the financial statements were available to be issued.