

2010 ANNUAL REPORT

USOF ENDOWMENT FUND INC.

PRESIDENT'S LETTER

I am pleased to report the 2010 results for the USOF Endowment Fund. This year the Fund finished with \$101,340 in total assets at June 30, 2010, a significant increase over the prior year figure of \$79,268. During the year, equity markets continued a steady rebound from lows experienced at the height of the financial crisis in early March, 2009. The Board's long-term investment perspective reaped rewards in 2010. Staying the course through the market downturn enabled the Fund to benefit fully from the market turnaround. As a result, the Fund asset value has nearly returned to its pre-financial-crisis level.

The Endowment Fund returns 4% of its total assets to USOF each year to support USOF operations and has provided over \$22,000 to USOF since the Fund's inception. Currently, approximately \$3,000 is available each year for this transfer.

Thomas Overbaugh
Secretary and Director
USOF Endowment Fund
(for past President Michael Ball)

SUMMARY OF INVESTMENT POLICIES AND PRACTICES

The Board has adopted a long-term investment perspective for the Endowment Fund. Over time, riding out the markets' inevitable ups and downs has proven much more effective than selling into panic or chasing the hottest trend. Even missing a few of the markets' best days can significantly diminish returns. Patience also affords the benefits of compounding – of earning interest on additional income or reinvested dividends and capital gains. While staying the course doesn't eliminate risk, it can considerably lessen the effect of short-term declines.

At the start of each year, the Fund rebalances its short term investments (currently invested in a Vanguard Money Market Account) to ensure that approximately two years' of transfers to USOF can be funded without needing to liquidate other investments.

The remainder of the Fund is invested in two no-load actively-managed mutual funds, the Fairholme Fund and the Longleaf Partners Fund. These investments are reviewed regularly to ensure suitability with the long-term objectives of the Endowment Fund.

MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

Total Assets under management by the Endowment Fund were \$101,340 at 2010 fiscal year-end. The Endowment Fund operates on a June 30 fiscal year basis. It was created in January 2002 with \$52,070

infused by USOF in 2002. USOF made subsequent infusions (from member contributions and lifetime membership fees) each year since including \$9,100 in 2010. This brings the total funds infused by USOF since inception to \$103,708. In 2003, the Fund began the yearly distribution to USOF of 4% of its calendar year-end assets as required by the Fund’s charter. The Endowment Fund distributed \$2,970 to USOF in 2010 – a cumulative \$22,123 distribution since the Fund’s inception.

Short term investments at year-end totaled \$6,023 and help ensure that two years’ of transfers to USOF could be funded without needing to liquidate any equity holdings. Net Assets, which represent the cumulative Endowment Fund earnings on the funds infused by USOF (net of distributions to USOF) increased by \$15,941 in 2010 to a total of \$19,755. This reverses a two year decline in Net Assets.

Global equity markets rallied in 2010, with most seeing double digit gains. The Endowment Fund’s holdings in Longleaf Partners and Fairholme Funds each outperformed the S&P 500 benchmark. While results will vary from year to year, we continue to believe that the investment strategy we have chosen to pursue will provide higher than average returns over the long term.

AS OF JUNE 30, 2010

	ANNUALIZED RETURNS				
	Calendar YTD %	One Year %	Three Year %	Five Year %	Ten Year %
Longleaf Partners	-1.62	21.90	-12.38	-1.08	4.87
Fairholme	0.70	20.46	0.32	6.74	12.55
S&P 500	-6.65	14.43	-9.81	-0.79	-1.59
Vanguard Prime MMA	0.02	0.10	1.94	3.01	2.73
Lipper Average MMA	0.00	0.03	1.47	2.45	2.16

OFFICERS

Michael Ball.....President and Director
 Thomas Overbaugh.....Secretary and Director
 Stephen Fluegel.....Treasurer and Director
 Charles Ferguson.....Education and Public Information Director,
 Liaison to the USOF Board
 Tim Parson.....Director

INVESTMENT ADVISOR.....W. Mikell Platt

ACCOUNTANT.....Catherine Ann Yekenevicz