



MIAMI

FOR LOVE AND HONOR

MIAMI UNIVERSITY FOUNDATION

FINANCIAL REPORT

for the year ended June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Miami University Foundation
107 Roudebush Hall
Oxford, Ohio 45056

We have reviewed the *Independent Auditor's Report* of the Miami University Foundation, Butler County, prepared by McGladrey LLP, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Miami University Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 24, 2012

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Independent Auditor's Report on the Financial Statements

Board of Directors
Miami University Foundation and
Mr. Dave Yost
Auditor of the State of Ohio

We have audited the accompanying statement of financial position of Miami University Foundation (the Foundation) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Miami University Foundation for the year ended June 30, 2011, were audited by other auditors, whose report dated October 14, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Miami University Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the 2012 financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2012 financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of Miami University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey LLP

Cleveland, Ohio
October 15, 2012

Miami University Foundation

Statement of Financial Position

June 30, 2012

(with Comparative Totals for June 30, 2011)

	2012	2011
Assets		
Cash and cash equivalents	\$ 26,498,190	\$ 21,224,853
Pledges receivable, net	44,773,011	47,514,940
Other receivables, primarily investment related	5,174,449	1,602,779
Investments	376,222,919	233,015,135
Cash value of paid-up life insurance	1,650,796	1,600,732
Real estate investments	499,415	334,415
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Total assets	\$ 454,818,780	\$ 305,292,854
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Liabilities		
Accounts payable and other liabilities	\$ 13,792,870	\$ 12,318,155
Assets held for other entities	158,355,422	3,605,925
Deferred revenue	2,350,000	2,379,711
Obligations under split-interest agreements	3,946,958	4,007,645
	<hr/>	<hr/>
Total liabilities	178,445,250	22,311,436
	<hr/>	<hr/>
Net Assets		
Unrestricted	(104,812)	249,095
Temporarily restricted	115,915,292	132,640,934
Permanently restricted	160,563,050	150,091,389
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Total net assets	276,373,530	282,981,418
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Total liabilities and net assets	\$ 454,818,780	\$ 305,292,854
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See Notes to Financial Statements.

Miami University Foundation

Statement of Activities

Year Ended June 30, 2012

(with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues and Other Additions					
Contributions	\$ 54,010	\$ 9,800,477	\$ 10,175,844	\$ 20,030,331	\$ 15,249,158
Investment income					
Dividend and interest income, net	5,896	2,449,370	-	2,455,266	1,970,234
Net realized and change in unrealized gains (losses)	(433,169)	(7,874,272)	(176)	(8,307,617)	33,478,931
Net investment income	(427,273)	(5,424,902)	(176)	(5,852,351)	35,449,165
Change in value of split-interest agreements	-	(177,141)	-	(177,141)	1,168,881
Net assets released from restrictions due to satisfaction of donor restrictions	20,628,083	(20,924,076)	295,993	-	-
Total revenues and other additions	20,254,820	(16,725,642)	10,471,661	14,000,839	51,867,204
Expenses and Other Deductions					
Distributions to Miami University (Note 5)	18,662,382	-	-	18,662,382	14,660,423
Administrative expenses (Note 5)	1,946,345	-	-	1,946,345	1,922,550
Total expenses and other deductions	20,608,727	-	-	20,608,727	16,582,973
Change in net assets	(353,907)	(16,725,642)	10,471,661	(6,607,888)	35,284,231
Net Assets - Beginning of Year	249,095	132,640,934	150,091,389	282,981,418	247,697,187
Net Assets - End of Year	\$ (104,812)	\$ 115,915,292	\$ 160,563,050	\$ 276,373,530	\$ 282,981,418

See Notes to Financial Statements.

Miami University Foundation

Statement of Cash Flows

Year Ended June 30, 2012

(with Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
Cash Flows From Operating Activities		
Payments to Miami University, net	\$ (21,251,225)	\$ (17,970,890)
Net cash (used in) operating activities	(21,251,225)	(17,970,890)
Cash Flows From Investing Activities		
Proceeds from sale of investments	176,289,318	76,984,089
Purchase of investments	(173,090,721)	(72,717,833)
Assets held for other entities	(1,225,407)	-
Net cash provided by investing activities	1,973,190	4,266,256
Cash Flows From Financing Activities		
Contributions restricted for endowment investment	22,725,679	17,173,691
Interest and dividends, restricted	2,208,736	2,007,325
Interest utilized for payment of split-interest obligations	323,720	371,918
Payments on split-interest obligations	(706,763)	(756,696)
Net cash provided by investing activities	24,551,372	18,796,238
Net increase in cash and cash equivalents	5,273,337	5,091,604
Cash and cash equivalents		
Beginning of year	21,224,853	16,133,249
End of year	\$ 26,498,190	\$ 21,224,853

(Continued)

Miami University Foundation

Statement of Cash Flows (Continued)

Year Ended June 30, 2012

(with Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
Reconciliation of change in net assets to net cash (used in) operating activities		
Change in net assets	\$ (6,607,888)	\$ 35,284,231
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase (decrease) in accounts payable and other liabilities	(642,498)	(1,387,917)
Contributions restricted for long-term investment	(20,030,331)	(15,249,158)
Net change in value of split-interest agreements	177,141	(1,168,881)
Interest and dividends	(2,455,266)	(1,970,234)
Net realized and change in unrealized (gains) losses on investments	8,307,617	(33,478,931)
Net cash (used in) operating activities	<u>\$ (21,251,225)</u>	<u>\$ (17,970,890)</u>

See Notes to Financial Statements.

Miami University Foundation

Notes to the Financial Statements

Note 1. Organization

Miami University Foundation (the Foundation) was organized on June 4, 1948 for the principal purpose of fostering the educational and research activities of Miami University. The Foundation is governed by a Board of Directors (the Board). In furtherance of its principal purpose, the Foundation is to be known as the primary fundraiser, manager and steward of donated funds to Miami University. The Foundation aspires to be a model of performance, accountability, stewardship and commitment to excellence. The income earned on the Foundation's investments is periodically transferred to Miami University to further its educational and research activities.

The Foundation Board is comprised of a maximum of twenty-nine members. Up to twenty-one members are elected by the Board and eight members are appointed by Miami University. At least two-thirds of the elected trustees are required to be alumni or former students of Miami University.

Note 2. Summary of Significant Accounting Policies

Financial statement presentation: The financial statements of the Foundation are prepared in accordance with accounting principles generally accepted in the United States of America as more explicitly described in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Net asset classification: Net assets comprise resources over which the Foundation has discretionary control for use in carrying out the financial and operational objectives of the Foundation and for purposes specified by donors. Activities of the Foundation are accounted for in the following net asset types:

Unrestricted net assets are those assets whose use has not been limited by donors for any period of time or specified purpose.

Temporarily restricted net assets include gifts and grants for which donor imposed restrictions have not been met (primarily future capital projects or gifts for educational purposes), earnings from long term investments which are donor restricted, and time restricted trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be utilized based on donor restrictions.

Accounting estimates: In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management has made, where necessary, estimates and judgments based on currently available information that affect certain amounts reflected in the financial statements. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents consists primarily of cash in banks, money market accounts, BlackRock Liquidity Federal Trust Fund, and the State Treasury Asset Reserve of Ohio (STAR Ohio) that include short-term, highly liquid investments readily convertible to cash, with an original maturity of three months or less. The Foundation maintains active relationships with multiple cash equivalent accounts to reduce its exposure to custodial credit risk at any single institution. The carrying amounts of these items are a reasonable estimate of their fair value.

Miami University Foundation

Notes to the Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: The Foundation records its investments at fair value using a hierarchy that ranges from those values obtained from unadjusted quoted prices in active markets (Level 1) to those values that are determined using unobservable inputs and in which the investment is illiquid (Level 3).

Investments that are market traded, such as equity and debt securities and mutual funds, are recorded at fair value based primarily on quoted market prices, as established by the major securities markets. The value of holdings of commingled funds investing in publicly traded stocks and bonds and not having a readily determined market value for fund units is based on the funds' net asset value as supplied by the investment manager. The manager values are reviewed and evaluated by Foundation management. Investments in real estate are recorded at appraised value at the date of donation. The issuing insurance companies determine the cash surrender value of the paid-up life insurance policies annually.

Market prices are not available for certain investments. These investments are carried at estimated fair value provided by the funds' management. Some valuations are determined as of June 30, while the remaining valuations are determined as of March 31 and adjusted by cash receipts, cash disbursements, and securities distributions through June 30. The Foundation believes that the carrying amounts are reasonable estimates of fair value as of year-end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting.

All donor-restricted endowment investments and unrestricted board-designated endowments are managed in a unitized investment pool (Pooled Funds), unless donor-restricted endowment gift agreements require that they be held separately. For the Pooled Funds, the fair value of the investments is determined at the end of each quarter and the incremental fair value increase or decrease is allocated to the individual fund accounts based on the number of shares the fund owns at the beginning of the quarter.

Investment income is recorded on the accrual basis and purchases and sales of investments are recorded on a trade-date basis. Investment transactions occurring on or before June 30, which settle after such date, are recorded as receivables or payables. Net dividend and interest income as well as gains/losses are allocated based on the number of shares owned.

Income taxes: The Foundation is a not-for-profit organization as defined under Section 501(c)(3) of the Internal Revenue Code (the Code) and, is generally exempt from federal income taxes pursuant to Section 501(a) of the Code, except on unrelated business income. The Foundation has evaluated its tax positions at June 30 with respect to accounting for uncertainties in income taxes and has determined that there was no material impact to the Foundation's financial statements. The ASC provides related guidance on measurement, classification, interest and penalties and disclosure as well as prescribing a threshold of more-likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years prior to the fiscal year ended June 30, 2009. As of June 30, 2012, the Foundation has no uncertain tax positions.

Reclassification: Certain reclassifications of 2011 amounts have been made to conform to the 2012 presentation.

Miami University Foundation

Notes to the Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Foundation has evaluated events occurring between the end of its most recent fiscal year and October 15, 2012, the date the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

Note 3. Pledges Receivable

As of June 30, 2012, contributors to the Foundation have made unconditional pledges totaling \$49,635,789 with 18 pledges accounting for over 50% of that total. Net pledges receivable have been discounted using interest rates to a net present value of \$48,357,117, at June 30, 2012. Discount rates based on the U.S. Treasury yield curve three-year average ranged from .24% to 3.40% for 2012. The methodology for calculating an allowance for uncollectible pledges is based upon management's analysis of the aging of payment schedules for all outstanding pledges. Management has recorded an allowance for uncollectible pledges of \$3,584,106 at June 30, 2012. All pledges have been classified as temporarily restricted net assets since they will either expire or be fulfilled within a specified time. At June 30, 2012, net pledges are due as follows:

Unconditional pledges expected to be collected:

Within one year	\$ 18,530,256
Between two and five years	25,173,228
In more than five years	<u>5,932,305</u>
Pledges receivable	49,635,789
Less discount on pledges	(1,278,672)
Less allowance for uncollectible pledges	<u>(3,584,106)</u>
Pledges receivable, net	<u>\$ 44,773,011</u>

The Foundation had also been notified of revocable pledges, bequests, and other indications of intentions to give. These potential contributions have not been substantiated by unconditional written promises to the Foundation. The Foundation's policy is not to record these intentions to give as revenues until they are reduced to writing or are collected.

Note 4. Investments

Investments held by the Foundation as of June 30 were:

Investment Description	2012 Fair Value	2011 Fair Value
Domestic Public Equities	\$ 20,794,348	\$ 32,871,867
Global Public Equities	104,484,593	43,007,452
International Public Equities	13,018,134	12,752,544
Domestic Public Fixed Income	17,729,871	8,035,284
Global Public Fixed Income	16,321,200	7,821,539
Hedge Funds	97,641,252	64,201,566
Private Investments	95,013,447	52,496,982
Split-Interest Funds:		
Charitable remainder trusts	8,065,107	8,699,324
Charitable gift annuities	2,541,779	2,478,331
Pooled income funds	613,188	650,246
Total	<u>\$ 376,222,919</u>	<u>\$ 233,015,135</u>

Miami University Foundation

Notes to the Financial Statements

Note 4. Investments (Continued)

Effective July 1, 2011, the Foundation entered into a Pooled Investment Agreement with Miami University whereby the Foundation will manage all of the Foundation and University endowment and quasi-endowment funds in a single investment pool (Pooled Fund). Also included in the Pooled Fund are assets held for the Miami University Paper Science & Engineering Foundation and a donor gift held for the benefit of three other Ohio universities. The assets held for other entities are maintained as separate funds on the financial system of the Foundation and receive a proportional share of the Pooled Fund's activity. The Foundation owns the assets in the Pool; the assets held for other entities have a financial interest in the Pooled Fund but do not own any of the underlying assets. The Foundation has recorded a liability at fair value for those assets held for other entities.

Assets held for other entities as of June 30 were:

	Miami University Endowment	Miami University Paper Science & Engineering Foundation	Other	Total
Assets held for other entities at June 30, 2011	\$ -	\$ 3,436,016	\$ 169,909	\$ 3,605,925
Transfer of cash and investments	167,823,063			167,823,063
New investments	2,680,785			2,680,785
Earnings distribution	(6,500,000)	(153,206)	(7,576)	(6,660,782)
Dividend and interest income	1,840,828	35,908	1,776	1,878,512
Net unrealized and realized gains (losses)	(9,185,244)	(160,215)	(7,923)	(9,353,382)
Value as of June 30, 2012	156,659,432	3,158,503	156,186	159,974,121
Distribution payable (included in accounts payable and other liabilities)	(1,455,842)	(155,183)	(7,674)	(1,618,699)
Assets held for other entities at June 30, 2012	\$ 155,203,590	\$ 3,003,320	\$ 148,512	\$ 158,355,422

The Pooled Fund portfolio's fair value was \$364,358,293 in 2012 and \$220,544,049 in 2011. The Foundation maintains a diversified investment portfolio for the Pooled Funds intended to reduce market risk, credit risk, and interest rate risk with a strategy designed to take advantage of market inefficiencies. The Foundation's investment objectives are guided by its asset allocation policy and are achieved in partnership with external investment managers operating through a variety of investment vehicles including separate accounts, limited partnerships, and commingled funds. The Foundation's investment portfolio includes publicly traded securities. As a result, a significant downturn in the securities markets could adversely affect the market value of Foundation assets. As of June 30, 2012, the Foundation has made commitments to limited partnerships of approximately \$37.0 million that have not yet been funded.

The 2012 dividend and interest income of \$2,455,266, as reported in the Statement of Activities, is net of fees from external investment managers totaling \$554,796. The 2011 dividend and interest income of \$1,970,234 is reported net of fees from external investment managers totaling \$644,702.

Miami University Foundation

Notes to the Financial Statements

Note 5. Fair Value Measurements

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 2 – Summary of Significant Accounting Policies. Financial assets and liabilities recorded on the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. The quoted market prices are from those securities traded on an active exchange such as the New York Stock Exchange, NASDAQ or in active over-the-counter markets;

Level 2 – Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes commingled funds whose underlying assets are valued by the investment manager who value such assets using independent pricing services and/or inputs from the active markets discussed in level 1. Certain Level 2 assets are valued according to the ASC which allows investors holding investments that do not have readily determinable fair values as defined in the ASC to use the net asset value per share of the investment as the fair value without further adjustment provided that the investee meets certain criteria defined in the ASC.

Level 3 – Inputs that are unobservable including the Foundation's own assumptions in determining the fair value of investments. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Level 3 includes primarily private investments and hedge funds.

The following table presents the fair value hierarchy for the balances of the assets of the Foundation measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Domestic Public Equities	\$ 12,086,896	\$ 8,707,452	\$ -	\$ 20,794,348
Global Public Equities	42,603,251	61,881,342		104,484,593
International Public Equities	9,533,213	3,484,921		13,018,134
Domestic Public Fixed Income	-	17,729,871		17,729,871
Global Public Fixed Income	16,321,200			16,321,200
Hedge Funds	-	97,641,252		97,641,252
Private Investments	-		95,013,447	95,013,447
Split-Interest Funds:				
Charitable remainder trusts	8,065,107			8,065,107
Charitable gift annuities	2,541,779			2,541,779
Pooled income funds	613,188			613,188
Total	\$ 91,764,634	\$ 189,444,838	\$ 95,013,447	\$ 376,222,919

Miami University Foundation

Notes to the Financial Statements

Note 5. Fair Value Measurements (Continued)

The following table is a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2012:

Balances as of July 1, 2011	\$ 49,060,966
Transfer of investments under Pooled Investment Agreement	33,876,146
Reclassification of funds held in trust for Miami University Paper Science Foundation	3,436,016
Purchases of investments	13,696,646
Proceeds from sale of investments	(10,523,973)
Net realized and unrealized gains on investments	5,467,646
Balances as of June 30, 2012	<u><u>\$ 95,013,447</u></u>

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among levels 1, 2 and 3 during the year.

Note 6. Endowment

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Ohio provides statutory guidelines for prudent management, investment, and expenditure of donor-restricted endowment funds held by charitable organizations. The Foundation's interpretation of its fiduciary responsibilities for donor-restricted endowments under UPMIFA requirements, barring the existence of any donor-specific provisions, is to preserve intergenerational equity to the extent possible and to produce maximum total return without assuming inappropriate risks. The investment policies governing these funds look beyond short-term fluctuations in economic cycles toward an investment philosophy that provides the best total return over very long time periods.

UPMIFA specifies that unless stated otherwise in the gift agreement, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. Barring the existence of specific donor instruction, the Foundation's policy is to report (a) the historical value for such endowment as permanently restricted net assets and (b) the net accumulated appreciation as temporarily restricted net assets. In this context, historical value represents (a) the original value of initial gifts restricted as permanent endowments plus (b) the original value of subsequent gifts along with (c) if applicable, the value of accumulations made in accordance with specific donor instruction.

Miami University Foundation

Notes to the Financial Statements

Note 6. Endowment (Continued)

The Foundation's endowment consists of approximately 1,410 separate accounts established since its inception. The following presents a summary of changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets,				
July 1, 2011	\$ 265,147	\$ 71,742,380	\$ 149,737,264	\$ 221,744,791
Contributions	55,343	248,025	10,175,844	10,479,212
Dividend and interest income, net of investment expense	5,761	2,445,321		2,451,082
Realized and unrealized losses	(433,169)	(7,890,957)		(8,324,126)
Net assets released from restrictions and other changes	11,151,588	(11,210,759)	424,683	365,512
Distributions to Miami University	(9,205,137)			(9,205,137)
Administrative expenses	(1,946,345)			(1,946,345)
Endowment Net Assets, June 30, 2012	\$ (106,812)	\$ 55,334,010	\$ 160,337,791	\$ 215,564,989

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 841,579	\$ -	\$ -	\$ 841,579
Donor restricted endowment	(948,391)	55,334,010	160,337,791	214,723,410
	\$ (106,812)	\$ 55,334,010	\$ 160,337,791	\$ 215,564,989

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration; deficiencies of this nature are reported as unrestricted net assets until such time as the fair value equals or exceeds historical value. Deficiencies of this nature are \$948,391 as of June 30, 2012 and \$223,549 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

The Foundation employs a total return policy which defines the total amount of dividends, interest and realized gains to be distributed from the investment pools. The Foundation Board has approved an endowment spending policy whereby distributions for financial support to Miami University in accordance with donor restrictions are calculated according to a formula which gives a 30% weight to market value of the investment portfolio at March 31 each year and a 70% weight to the prior year's actual spending adjusted for inflation.

Actual endowment return earned in excess of distributions under this policy is reinvested as part of the Foundation's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Permanently restricted accounts with insufficient accumulated earnings do not make a current year distribution. Appropriation for expenditure of funds under the spending policy occurs on June 30 of each year.

Miami University Foundation

Notes to the Financial Statements

Note 6. Endowment (Continued)

The total calculated spending amount in 2012 was \$18,717,163 which includes \$8,118,699 of earnings distributions to assets held for other entities as described in Note 4. Permanently restricted accounts with insufficient accumulated earnings did not make a full current year distribution, distributing only the current year dividend and interest income on such accounts. As a result, \$8,562,462 was distributed to Miami University from Foundation endowments. In addition to current year distributions in accordance with the spending formula, \$10,099,920 was distributed in accordance with donors' stipulations. The following summarizes the programs supported by the current year's distribution:

Miami University Program Supported	Spending Rate and Special Distribution	Donor Stipulated Distribution	Total Distributions to Miami University
Scholarships and fellowships	\$ 4,002,646	\$ 32,970	\$ 4,035,616
Academic support	3,525,679	898,776	4,424,455
Student services/athletics	329,187	300,449	629,636
Campus improvements	31,904	7,243,745	7,275,649
Other institutional support	673,046	1,623,980	2,297,026
Total distributions to Miami University	\$ 8,562,462	\$ 10,099,920	\$ 18,662,382

Miami University incurs certain expenses related to development and investment related expenses relative to endowment management as well as fundraising efforts for the benefit of the Foundation; consequently, the Foundation does not report fundraising expenses. The University is reimbursed for its expenses in the form of a maximum administrative fee of 1.0% calculated against the previous fiscal year's March 31st value of the Foundation investment pool. The administrative fee is funded from current and accumulated earnings from all funds holding shares in the Foundation investment pool, including the assets held for other entities; funds with insufficient accumulated earnings are not charged thereby reducing the maximum administrative fee payable. A total of \$1,946,345 was reimbursed to Miami University in 2012 for the Foundation endowment's share of the calculated fee.

Note 7. Split-Interest Agreements

The Foundation's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the Foundation serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Assets held for these agreements are included in investments.

Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the dates the agreements and trusts are established, net of the liabilities for the present value of estimated future payments to be made to the donors and/or other beneficiaries. For pooled income funds, contribution revenue is recognized upon establishment of the agreement at the fair value of the estimated future receipts, discounted for the estimated time period until culmination of the agreement. Annually the Foundation records the change in value of split-interest agreements according to the fair value of the assets that are associated with each trust and recalculates the liability for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

Miami University Foundation

Notes to the Financial Statements

Note 8. Classification of Net Assets

Resources of the Foundation are classified for reporting purposes into net asset classes based on the existence or absence of donor-imposed restrictions and state law. The following summarizes the Miami University programs supported or to be supported by the net assets of the Foundation at June 30, 2012:

Miami University Program Supported	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Scholarships and fellowships	\$ (449,421)	\$ 18,267,824	\$ 75,680,399	\$ 93,498,802
Academic support	(406,431)	23,326,198	63,224,248	86,144,015
Student services/athletics	(22,217)	1,548,845	6,617,058	8,143,686
Campus improvements	-	6,672,184	585,490	7,257,674
Other and undesignated	773,257	66,100,241	14,455,855	81,329,353
Total net assets	\$ (104,812)	\$ 115,915,292	\$ 160,563,050	\$ 276,373,530

Miami University Foundation

Schedule of Changes in Net Assets

Year Ended June 30, 2012

See Independent Auditor's Report on the Supplementary Information

	Balance July 1, 2011	Contributions	Endowment Income	Net Market Adjustment	Transfers To Miami	Intrafund Transfers	Other	Balance June 30, 2012
Pooled endowment funds	\$ 221,484,932	\$ 10,479,212	\$ 2,449,626	\$ (10,261,104)	\$ (9,202,323)	\$ 365,512	\$ -	\$ 215,315,855
Non-pooled endowment funds	259,859	-	1,456	(9,367)	(2,814)	-	-	249,134
Total endowment funds	221,744,791	10,479,212	2,451,082	(10,270,471)	(9,205,137)	365,512	-	215,564,989
Expendable funds - donor restricted for capital projects	3,443,038	9,633,037	3,096	2,470	(7,242,354)	250,000	-	6,089,287
Expendable and board discretionary funds-non capital	1,757,170	2,297,503	952	(65)	(2,214,854)	138,498	-	1,979,204
Accumulated cash value insurance	1,600,731	783	-	49,282	-	-	-	1,650,796
Other investment funds	704,993	270,668	136	(35,176)	(37)	(110,774)	-	829,810
Net split-interest funds	6,215,755	91,057	-	-	-	(643,236)	(177,143)	5,486,433
Pledges receivable	47,514,940	(2,741,929)	-	-	-	-	-	44,773,011
Total net assets	\$ 282,981,418	\$ 20,030,331	\$ 2,455,266	\$ (10,253,960)	\$ (18,662,382)	\$ -	\$ (177,143)	\$ 276,373,530

Detail of Net Market Adjustment

Net Unrealized and Realized Gains/(Losses)	Administrative Expense	Net Market Adjustment
\$ (8,307,617)	\$ (1,946,343)	\$ (10,253,960)

Miami University Foundation

Schedule of Investments

June 30, 2012

(With Comparative Totals for June 30, 2011)

See Independent Auditor's Report on the Supplementary Information

Description	2012 Fair Value	2011 Fair Value
Pooled Funds		
Domestic Public Equities		
Eagle Global Advisors	\$ 8,707,452	\$ -
Friess Associates	-	19,888,699
Lateef Investment Management	12,004,983	7,236,028
Snow Capital Management	-	5,599,065
Total Domestic Public Equities	20,712,435	32,723,792
Global Public Equities		
Aberdeen Asset Management, Inc.	31,045,494	15,197,276
MSCI ASWI iShares	20,763,539	-
Tradewinds Global Investors	30,835,849	27,810,176
Virtus Global Opportunities	21,839,711	-
Total Global Public Equities	104,484,593	43,007,452
International Public Equities		
Artio Global Investors	-	10,862,918
Lone Dragon Pine	3,484,921	-
Tradewinds Emerging Markets	3,336,381	1,889,626
Virtus Emerging Markets Opportunities	6,196,832	-
Total International Public Equities	13,018,134	12,752,544
Domestic Public Fixed Income		
Commonfund - High Quality Bond Fund	17,729,871	8,035,284
Total Domestic Public Fixed Income	17,729,871	8,035,284
Global Public Fixed Income		
Templeton Global Total Return Fund	16,321,200	7,821,539
Total Global Public Fixed Income	16,321,200	7,821,539
Hedge Funds		
Canyon Capital Advisors	19,907,095	13,517,962
Evanston Capital	23,095,552	21,162,092
GoldenTree Asset Management	20,234,115	14,368,662
GRT Capital Partners	4,186,802	80,355
Ivory Investment Management	15,456,398	15,072,495
Sandler Capital	4,953,651	-
Standard Pacific	4,703,919	-
Starboard Value LP	5,103,720	-
Total Hedge Funds	97,641,252	64,201,566
Private Investments		
Commonfund (18 funds) - Various	23,886,595	14,814,083
Goldman Sachs (4 funds) - Various	25,757,204	14,592,064
Hamilton Lane Advisors (2 funds) - Equities	16,251,548	5,972,694
Metropolitan - Real Estate	3,428,719	1,760,298
Penn Square Capital Group - Real Estate	11,925,084	5,781,863
Pomona Capital - Equities	3,561,407	3,858,490
Timbervest - Natural Resources	9,140,711	5,222,380
United Educators	499,540	-
Total Private Investments	94,450,808	52,001,872
Total pooled funds	364,358,293	220,544,049

(Continued)

Miami University Foundation

Schedule of Investments (Continued)

June 30, 2012

(With Comparative Totals for June 30, 2011)

See Independent Auditor's Report on the Supplementary Information

Description	2012 Fair Value	2011 Fair Value
Separately Invested Funds		
Domestic Public Equities		
Student managed investment portfolio	\$ 79,913	\$ 146,075
GSEP 2005 Realty Corp	1,000	1,000
GSEP 2006 Realty Corp	1,000	1,000
Total Domestic Public Equities	81,913	148,075
Private Investments		
Carlyle Credit Partners	-	2,982
Longford Limited Partnership	13,899	15,388
Longview Energy Company	210,360	210,360
Nuclea Biotechnologies	337,380	265,380
Student Venture Fund	1,000	1,000
Total Private Investments	562,639	495,110
Total separately invested funds	644,552	643,185
Split-Interest Funds		
Marshall & Ilsley Trust Company		
Domestic Public Equities	1,204,425	1,367,743
International Public Equities	121,345	257,118
Domestic Public Fixed Income	522,908	632,145
Total Marshall & Ilsley Trust Company	1,848,678	2,257,006
PNC Bank		
Domestic Public Equities	3,645,868	3,774,009
International Public Equities	484,711	622,396
Domestic Public Fixed Income	5,240,817	5,174,490
Total PNC Bank	9,371,396	9,570,895
Total Split-Interest Funds	11,220,074	11,827,901
Grand total	\$ 376,222,919	\$ 233,015,135



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Miami University Foundation and
Mr. Dave Yost
Auditor of the State of Ohio

We have audited the financial statements of Miami University Foundation as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Miami University Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Miami University Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Miami University Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Miami University Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards* (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Miami University Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is solely for the information and use of management, the Board of Directors, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Cleveland, Ohio
October 15, 2012

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Dave Yost • Auditor of State

MIAMI UNIVERSITY FOUNDATION

BUTLER COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 3, 2013**