



Miami University Foundation

Financial Report

June 30, 2018



Dave Yost • Auditor of State

Board of Directors
Miami University Foundation
218 Roudebush Hall
Oxford, Ohio 45056

We have reviewed the *Independent Auditor's Report* of the Miami University Foundation, Butler County, prepared by RSM US LLP, for the audit period July 1, 2017 through June 30, 2018. 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

October 16, 2018

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Miami University Foundation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Miami University Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

Report on Summarized Comparative Information

We have previously audited Miami University Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such statements 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018, 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 solely 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 effectiveness of Miami University Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Miami University Foundation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
October 9, 2018

Miami University Foundation

Statement of Financial Position

June 30, 2018

(With Comparative Totals for June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	\$ 64,282,976	\$ 43,840,084
Pledges receivable, net	31,258,652	36,219,757
Other receivables, primarily investment related	12,439,077	13,439,412
Investments	477,035,567	477,769,184
Cash value of life insurance	2,063,101	2,014,296
Real estate investments	30,000	262,875
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Total assets	\$ 587,109,373	\$ 573,545,608
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Liabilities		
Accounts payable and other liabilities	\$ 14,824,742	\$ 13,932,276
Assets held for other entities	214,465,794	213,843,604
Deferred revenue	1,671,980	1,749,089
Obligations under split-interest agreements	3,976,357	4,637,491
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Total liabilities	234,938,873	234,162,460
	<hr/>	<hr/>
Net Assets		
Unrestricted	624,224	957,683
Temporarily restricted	128,722,442	128,706,074
Permanently restricted	222,823,834	209,719,391
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Total net assets	352,170,500	339,383,148
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Total liabilities and net assets	\$ 587,109,373	\$ 573,545,608
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See notes to financial statements.

Miami University Foundation

Statement of Activities

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenues and other additions:					
Contributions	\$ -	\$ 2,530,746	\$ 12,346,397	\$ 14,877,143	\$ 25,497,080
Investment income:					
Dividend and interest income, net	15,946	4,427,770	910	4,444,626	2,568,598
Net realized and unrealized (losses) gains	(342,146)	14,877,843	718	14,536,415	26,239,405
Net investment income	(326,200)	19,305,613	1,628	18,981,041	28,808,003
Change in value of split-interest agreements	-	680,812	-	680,812	1,050,289
Net assets released from restrictions due to satisfaction of donor restrictions	21,744,385	(22,500,803)	756,418	-	-
Total revenues and other additions	21,418,185	16,368	13,104,443	34,538,996	55,355,372
Expenses and other deductions:					
Distributions to Miami University (Note 6)	18,181,165	-	-	18,181,165	15,347,172
Other expenses	760,839	-	-	760,839	381,648
Administrative expenses (Note 6)	2,809,640	-	-	2,809,640	2,485,019
Total expenses and other deductions	21,751,644	-	-	21,751,644	18,213,839
Change in net assets	(333,459)	16,368	13,104,443	12,787,352	37,141,533
Net assets - beginning of year	957,683	128,706,074	209,719,391	339,383,148	302,241,615
Net assets - end of year	\$ 624,224	\$ 128,722,442	\$ 222,823,834	\$ 352,170,500	\$ 339,383,148

See notes to financial statements.

Miami University Foundation

Statement of Cash Flows

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Payments to Miami University, net	\$ (20,777,557)	\$ (16,957,311)
Cash flows from investing activities:		
Proceeds from sale of investments	167,358,200	84,838,231
Purchase of investments	(141,535,799)	(104,054,003)
Assets held for other entities	(9,053,138)	17,140,393
Net cash provided by (used in) by investing activities	16,769,263	(2,075,379)
Cash flows from financing activities:		
Contributions restricted for long-term investment	20,562,871	23,579,991
Interest and dividends, restricted	4,278,622	2,357,617
Interest utilized for payment of split-interest obligations	503,489	355,610
Payments on split-interest obligations	(893,796)	(757,043)
Net cash provided by financing activities	24,451,186	25,536,175
Net increase in cash and cash equivalents	20,442,892	6,503,485
Cash and cash equivalents:		
Beginning	43,840,084	37,336,599
Ending	\$ 64,282,976	\$ 43,840,084
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 12,787,352	\$ 37,141,533
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Increase in accounts payable and other liabilities	974,087	1,256,528
Contributions restricted for long-term investment	(14,877,143)	(25,497,080)
Net change in value of split-interest agreements	(680,812)	(1,050,289)
Interest and dividends	(4,444,626)	(2,568,598)
Net realized and unrealized gains on investments	(14,536,415)	(26,239,405)
Net cash used in operating activities	\$ (20,777,557)	\$ (16,957,311)

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 at least fifteen directors that are elected by the Board and eight directors that are appointed by Miami University. At least two-thirds of the elected directors 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 which generally require, by donor restriction, that the corpus be invested in perpetuity. The donors generally permit the use of a portion of the income earned to be utilized for specific purposes based on their 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, and the State Treasury Asset Reserve of Ohio (STAR Ohio and STAR Plus) that include short-term, highly liquid investments readily convertible to cash, with an original maturity of three months or less. The carrying amounts of these items are a reasonable estimate of their fair value.

Approximately \$451,000 of cash and cash equivalents was covered by federal depository insurance; \$24.1 million was covered by collateral held by third-party trustees pursuant to paragraph 135.181 of the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions; and the remainder was invested in money market funds that invest substantially all of its assets in U.S. Treasury securities and repurchase agreements. The Foundation maintains active relationships with multiple cash equivalent accounts to reduce its exposure to custodial credit risk at any single institution.

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 the following methods and assumptions:

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 that do not have a readily determined market value for fund units is based on the funds' net asset value as supplied by the investment manager's administrator. The 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 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 based on March 31 information when June 30 information is not yet available 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.

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 2. Summary of Significant Accounting Policies (Continued)

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. As of June 30, 2018, the Foundation has no uncertain tax positions.

Recent accounting pronouncements: 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 objective of this statement is to improve the current net asset classification requirements and information presented in financial statements and notes about an entity's liquidity, financial performance and cash flows. The statement is effective for fiscal years beginning after December 15, 2017. Management has not yet determined the impact this statement will have on its financial statements.

Subsequent events: The Foundation has evaluated events occurring between the end of its most recent fiscal year and October 9, 2018, the date the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

Note 3. Pledges Receivable, Net

At June 30, 2018, contributors to the Foundation have made unconditional pledges totaling \$34,371,893 with one pledge accounting for over 47% of that total. Net pledges receivable have been discounted using interest rates to a net present value of \$32,984,096, at June 30, 2018. Discount rates ranged from 1.20% to 3.40%. 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. At June 30, 2018, net pledges are due as follows:

Unconditional pledges expected to be collected:

Within one year	\$ 10,428,217
Between two and five years	19,252,892
In more than five years	4,690,784
Pledges receivable	<u>34,371,893</u>
Less discount on pledges	(1,387,797)
Less allowance for uncollectible pledges	<u>(1,725,444)</u>
Pledges receivable, net	<u><u>\$ 31,258,652</u></u>

The Foundation had also been notified of revocable pledges, bequests, and other indications of intentions to give. These potential contributions are not permitted to be recorded as they are deemed intentions to give and not promises to give.

Miami University Foundation

Notes to the Financial Statements

Note 4. Investments

Investments held by the Foundation as of June 30, 2018 were:

<u>Investment Description</u>	<u>Fair Value</u>
Domestic public equities	\$ 19,603,939
Global public equities	200,039,515
International public equities	27,396,160
Domestic debt	55,112,621
Global debt	11,948,653
Hedge funds	58,961,447
Limited partnerships, non-public equities and separately held mutual funds	91,053,107
Split-Interest Funds:	
Charitable remainder trusts	10,049,359
Charitable gift annuities	2,297,226
Pooled income funds	573,540
Total	\$ 477,035,567

The Pooled Fund portfolio's fair value, excluding cash, was \$464,016,443 at June 30, 2018. 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, 2018, the Foundation has made commitments to limited partnerships of approximately \$54.0 million that have not yet been funded, some of which management expects may not be called by the partnerships due to the life-cycle of the respective partnerships.

The 2018 dividend and interest income of \$4,444,626, as reported in the Statement of Activities, is net of fees from external investment managers totaling \$283,534.

Included in the Foundation's investment Pooled Fund are assets held for the Miami University Endowment, 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 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 equal to the fair value for the assets held for other entities.

Miami University Foundation

Notes to the Financial Statements

Note 4. Investments (Continued)

Assets held for other entities as of June 30, 2018 were:

	Miami University Endowment	Miami University Paper Science & Engineering Foundation	Other	Total
Assets held for other entities at June 30, 2017	\$ 210,206,922	\$ 3,481,116	\$ 155,566	\$ 213,843,604
New investments	132,000	-	-	132,000
Redemption	-	(3,000,000)	-	(3,000,000)
Earnings distribution	(7,514,523)	-	-	(7,514,523)
Dividend and interest income	3,105,791	9,540	2,581	3,117,912
Net unrealized and realized gains	7,799,559	110,173	6,386	7,916,118
Value as of June 30, 2018	213,729,749	600,829	164,533	214,495,111
Distribution payable (included in accounts payable and other liabilities)	-	(23,074)	(6,243)	(29,317)
Assets held for other entities at June 30, 2018	\$ 213,729,749	\$ 577,755	\$ 158,290	\$ 214,465,794

Note 5. Fair Value Measurements and Disclosures

The Foundation uses fair value measurements to record the fair value of 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 and valuation techniques as follows:

Level 1 – Quoted prices that are available in active markets as of the report date. The quoted market prices are from those securities traded on an active exchange such as the New York Stock Exchange, NASDAQ or an active over-the-counter markets.

Level 2 – Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the report date.

Level 3 – Inputs that are unobservable including the Foundation's own assumptions in determining the fair value of investments or liabilities.

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. Liabilities associated with the split-interest funds represent the present value of the expected payments to the beneficiaries over the terms of the agreements.

Miami University Foundation

Notes to the Financial Statements

Note 5. Fair Value Measurements and Disclosures (Continued)

The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Foundation measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investment Assets:				
Domestic public equities	\$ -	\$ 19,603,939	\$ -	\$ 19,603,939
Global public equities	121,237,164	-	-	121,237,164
International public equities	17,050,831	-	-	17,050,831
Domestic public debt	-	4,131,909	-	4,131,909
Limited partnerships and non-public equities	-	19,350	79,649	98,999
Split-interest funds:				
Charitable remainder trusts	10,049,359	-	-	10,049,359
Charitable gift annuities	2,297,226	-	-	2,297,226
Pooled income funds	573,540	-	-	573,540
	<u>\$ 151,208,120</u>	<u>\$ 23,755,198</u>	<u>\$ 79,649</u>	<u>\$ 175,042,967</u>

Funds reported at fair value based on net asset value: ^(a)

Commingled funds reported at fair value:		
Non-publicly traded funds		\$ 152,077,045
Hedge funds		58,961,447
Limited partnerships		90,954,108
Total commingled funds reported at fair value		<u>301,992,600</u>
Total investment assets		<u>\$ 477,035,567</u>

Investment Liabilities:

Split-interest funds:				
Charitable remainder trusts	\$ -	\$ -	\$ 2,011,123	\$ 2,011,123
Charitable gift annuities	-	-	1,958,233	1,958,233
Pooled income funds	-	-	7,001	7,001
Total investment liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,976,357</u>	<u>\$ 3,976,357</u>

^(a) In accordance with ASC Subtopic 820-10, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

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, 2018:

	Limited Partnerships and Non-Public Equities	Split-Interest Funds
Balances as of July 1, 2017	\$ 46,400	\$ (4,637,491)
Purchases of investments	33,250	-
Net realized and unrealized (losses) gains	(1)	661,134
Balances as of June 30, 2018	<u>\$ 79,649</u>	<u>\$ (3,976,357)</u>

Miami University Foundation

Notes to the Financial Statements

Note 5. Fair Value Measurements (Continued)

The following table sets forth the significant terms of the agreements with commingled funds reported at fair value based on net asset value at June 30, 2018:

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Non-publicly traded equity funds ^(a)	\$ 89,147,680	\$ -	monthly	10 days
Non-publicly traded debt funds ^(b)	62,929,365	-	weekly, monthly	5 - 90 days
Hedged equity funds ^(c)	9,964,722	-	various	30 - 60 days
Hedged debt funds ^(d)	48,996,725	-	quarterly	45 - 95 days
Limited partnership ^(e)				
Private equity	14,594,561	13,076,945	illiquid	not applicable
Private debt	19,135,571	19,461,792	illiquid	not applicable
Private natural resources	24,160,240	12,847,157	illiquid	not applicable
Private real estate	33,063,736	8,598,663	illiquid	not applicable
Total	\$ 301,992,600	\$ 53,984,557		

- (a) This class includes investment vehicles that are non-publicly traded commingled funds, however, invest primarily in long-only investments in publicly traded equity securities on a global basis. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- (b) This class includes investment vehicles that are non-publicly traded commingled funds, however, invest primarily in long-only investments in publicly traded bonds and other debt securities on a global basis. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- (c) This class includes primarily investments in hedge funds that invest in both long and short positions in publicly traded equity securities on a global basis. The fund may also hold long and short positions in debt securities. The redemption frequency for these funds range from quarterly to up to 24 months. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. One investment, valued at \$10.0 million, has a rolling 2-year lock on redemption imposed by the hedge fund manager and no redemptions are currently permitted. We are in the first year of this redemption restriction.
- (d) This class includes primarily investments in hedge funds that invest in both long and short positions in both publicly traded and private debt securities on a global basis. The fund may also hold long and short positions in equity securities. Most debt securities are sub-investment grade and may be hard to price due to thin trading volumes. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. One investment, valued at \$14.3 million, has a rolling 2-year lock on redemption imposed by the hedge fund manager and no redemptions are currently permitted. We are in the second year of this redemption restriction.
- (e) This class includes primarily investments in limited partnerships. These funds are illiquid that, in general, do not offer access to redemptions during the life of the partnership. Capital is periodically called, invested, and then returned over time. Typically these partnerships have a life exceeding ten years and may take up to twenty years before they have fully returned called capital.

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.

Miami University Foundation

Notes to the Financial Statements

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.

The Foundation's endowment consists of approximately 1,820 separate accounts established since its inception. The following presents a summary of changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ 957,683	\$ 72,224,273	\$ 209,704,491	\$ 282,886,447
Contributions	-	2,143,844	12,346,397	14,490,241
Dividend and interest income, net of investment expense	15,946	4,396,165	910	4,413,021
Realized and unrealized (losses) gains	(342,146)	14,766,294	719	14,424,867
Net assets released from restrictions and other changes	14,174,127	(14,448,751)	756,418	481,794
Distributions to Miami University	(11,326,529)	-	-	(11,326,529)
Other expenses	(45,217)	-	-	(45,217)
Administrative expenses	(2,809,640)	-	-	(2,809,640)
Endowment net assets, June 30, 2018	\$ 624,224	\$ 79,081,825	\$ 222,808,935	\$ 302,514,984

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 624,224	\$ -	\$ -	\$ 624,224
Donor restricted endowment	-	79,081,825	222,808,935	301,890,760
	\$ 624,224	\$ 79,081,825	\$ 222,808,935	\$ 302,514,984

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. There were no deficiencies of this nature as of June 30, 2018.

Miami University Foundation

Notes to the Financial Statements

Note 6. Endowment (Continued)

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 endowment spending distribution policy approved by the Foundation Board of Directors distributes four percent of the average of the previous twelve quarterly market values as of March 31st of each fiscal year. This policy is intended to provide consistency, predictability, and sustainability of the annual distributions, while maintaining intergenerational equity to preserve the purchasing power of the endowed principal.

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 full current year distribution. Appropriation for expenditure of funds under the spending policy occurs on June 30 of each year.

The total calculated spending amount in 2018 was \$18,214,253 which includes \$7,543,840 of earnings distributions to assets held for other entities as described in Note 4. Some are reinvesting all endowment earnings. As a result, \$9,693,406 was distributed to Miami University from Foundation endowments. In addition to current year endowment distributions, \$8,487,759 of non-endowed funds were distributed to Miami University in satisfaction of donor restrictions. The following summarizes the programs supported by the current year's distribution:

<u>Miami University Program Supported</u>	Spending Rate and Special Distribution	Donor Stipulated Distribution	Total Distributions to Miami University
Scholarships and fellowships	\$ 4,760,221	\$ 77,446	\$ 4,837,667
Academic support	3,810,077	1,601,937	5,412,014
Student services/athletics	341,398	-	341,398
Campus improvements	97,485	4,762,706	4,860,191
Other institutional support	684,225	2,045,670	2,729,895
Total distributions to Miami University	\$ 9,693,406	\$ 8,487,759	\$ 18,181,165

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. Miami 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 \$2,809,640 was reimbursed to Miami University in 2018 for the Foundation endowment's share of the calculated fee.

Miami University Foundation

Notes to the Financial Statements

Note 7. 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, 2018:

<u>Miami University Program Supported</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Scholarships and fellowships	\$ -	\$ 27,479,884	\$ 115,685,971	\$ 143,165,855
Academic support	-	35,736,100	83,009,243	118,745,343
Student services/athletics	-	1,769,735	8,287,111	10,056,846
Campus improvements	-	8,369,102	1,157,715	9,526,817
Other and undesignated	624,224	55,367,621	14,683,794	70,675,639
Total net assets	\$ 624,224	\$ 128,722,442	\$ 222,823,834	\$ 352,170,500

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Supplementary Information

Miami University Foundation

**Schedule of Changes in Net Assets
Year Ended June 30, 2018**

	Balance July 1, 2017	Contributions	Endowment Income	Market Adjustment, Net	Transfers To Miami	Intrafund Transfers	Other	Balance June 30, 2018
Pooled endowment funds	\$ 282,597,978	\$ 14,470,174	\$ 4,410,506	\$ 11,616,523	\$ (11,324,174)	\$ 481,794	\$ (45,217)	\$ 302,207,584
Non-pooled endowment funds	288,469	20,067	2,515	(1,296)	(2,355)	-	-	307,400
Total endowment funds	282,886,447	14,490,241	4,413,021	11,615,227	(11,326,529)	481,794	(45,217)	302,514,984
Expendable funds - donor restricted for capital projects	7,586,308	3,062,531	23,708	1,559	(3,951,834)	183,420	(715,622)	6,190,070
Expendable and board discretionary funds-non capital	2,439,227	2,192,833	7,897	2,017	(2,659,492)	166,504	-	2,148,986
Accumulated cash value insurance	2,014,296	11,176	-	107,973	(10,435)	(59,909)	-	2,063,101
Other investment funds	76,398	-	-	(1)	-	33,250	-	109,647
Net split-interest funds	7,987,823	81,467	-	-	(232,875)	(805,059)	683,504	7,714,860
Pledges receivable	36,219,757	(4,961,105)	-	-	-	-	-	31,258,652
Interest in trusts held by others	172,892	-	-	-	-	-	(2,692)	170,200
Total net assets	\$ 339,383,148	\$ 14,877,143	\$ 4,444,626	\$ 11,726,775	\$ (18,181,165)	\$ -	\$ (80,027)	\$ 352,170,500

Detail of Market Adjustment, Net

Net Unrealized and Realized Gains	Administrative Expense	Market Adjustment, Net
\$ 14,536,415	\$ 2,809,640	\$ 11,726,775

Miami University Foundation

Schedule of Investments

June 30, 2018

(With Comparative Totals for June 30, 2017)

Description	2018 Fair Value	2017 Fair Value
Pooled Funds		
Domestic Public Equities		
Eagle Global Advisors (a)	\$ 19,603,939	\$ 14,054,544
Total domestic public equities	19,603,939	14,054,544
Global Public Equities		
Baring Asset Management (a)	33,849,545	30,154,512
Northern Trust (a)	44,952,806	31,699,740
Oakmark Funds (b)	23,755,574	21,801,360
Pimco (b)	39,254,559	29,839,045
Victory RS Investments (b)	5,461,930	4,922,480
Virtus Investment Partners (b)	23,329,210	22,297,069
William Blair Global Leaders (b)	29,435,891	24,357,369
Total global public equities	200,039,515	165,071,575
International Public Equities		
Highclere International Investors (a)	10,345,329	9,654,415
Virtus Investment Partners (b)	17,050,831	16,853,096
Total international public equities	27,396,160	26,507,511
Domestic Public Debt		
Johnson Institutional Management (c)	4,131,909	11,534,357
Northern Trust (a)	50,980,712	24,811,404
Total domestic public debt	55,112,621	36,345,761
Global Public Debt		
Beach Point Capital Management (a)	11,948,653	11,628,213
Total global public debt	11,948,653	11,628,213
Hedge Funds (a)		
Beach Point Capital Management	13,810,843	13,205,350
Canyon Capital Advisors	16,232,611	15,048,060
Evanston Capital	-	23,821,008
Fir Tree Partners	9,964,722	10,011,325
GoldenTree Asset Management	4,636,564	18,484,585
JHL Capital Group	-	8,694,950
Marble Arch Investments	-	10,690,838
Sandler Capital	-	11,915,091
Starboard Value	-	7,466,167
Strategic Value Partners	14,316,707	13,001,194
Total hedge funds	58,961,447	132,338,568
Private Investments (a)		
Commonfund (12 funds) - Various	11,633,427	13,012,620
Falcon Investment Advisors - Debt	3,821,508	3,335,625
GEM Realty Securities - Real Estate	10,830,706	5,316,385
Goldman Sachs (4 funds) - Various	7,410,062	10,988,337
Hamilton Lane Advisors (2 funds) - Equities	6,722,601	8,294,353
Huron Capital Partners - Equities	505,810	-
Maranon Capital, LP - Debt	8,988,714	2,335,083
Metropolitan - Real Estate	1,275,263	1,337,920
Penn Square Capital Group (2 funds) - Real Estate	2,768,931	4,208,754
Pomona Capital - Equities	668,797	1,181,539
Rockland Capital LLC - Natural Resources	3,006,888	1,270,042
Summit Partners - Equities	2,162,828	360,000
Timbervest (2 funds) - Natural Resources	7,957,367	10,113,385
Venture Investment Associates - Natural Resources	2,458,071	1,611,905
Westport Capital Partners (2 funds) - Real Estate	18,188,836	15,115,537
Yukon Partners - Debt	2,554,299	-
Total private investments	90,954,108	78,481,485
Total pooled funds	464,016,443	464,427,657

(Continued)

Miami University Foundation

Schedule of Investments (Continued)

June 30, 2018

(With Comparative Totals for June 30, 2017)

<u>Description</u>	2018	2017
	Fair Value	Fair Value
Separately Invested Funds		
Limited Partnerships, Non-Public Equities (a) and Separately held mutual funds (b)		
Longford Limited Partnership	\$ 13,899	\$ 13,899
Longview Energy Company	-	1
Stone Ridge	19,350	-
Student Venture Funds	65,750	32,500
Total limited partnerships, non-public equities and separately held mutual funds	98,999	46,400
Total separately invested funds	98,999	46,400
Split-Interest Funds		
PNC Bank (b)		
Domestic public equities	6,123,902	6,281,644
International public equities	1,620,353	1,599,526
Domestic public debt	4,615,573	4,824,548
Global public debt	560,297	589,409
Total split-interest funds	12,920,125	13,295,127
Grand total	\$ 477,035,567	\$ 477,769,184

(a) Commingled and non-publicly traded funds

(b) Mutual funds

(c) Publicly traded securities managed in a separate account

**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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of Miami University Foundation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Miami University Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Miami University Foundation's internal control.

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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Miami University Foundation's financial statements are free from 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*.

Miami University Foundation's Response to Findings

Miami University Foundation's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Miami University Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Cleveland, Ohio
October 9, 2018

Miami University Foundation

Schedule of Findings and Responses June 30, 2018

Finding 2018-001

Criteria: The Foundation's system of internal control has been designed in order to produce financial statements in accordance with generally accepted accounting principles (GAAP). A material weakness in internal control is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Condition: During the year, we identified an error in the recording of a multi-year unconditional promise to give (pledge). The Foundation Advancement Department incorrectly entered a certain multi-year pledge commitment by not including expected installment data in the accounting system and the agreement was not reviewed by the Foundation Finance Department. While the error identified was not material to the overall financial statements, we believe the design of management's controls around the review of donor agreements would not have detected nor prevented a material misstatement from occurring.

Cause: The Foundation Finance Department is not provided signed donor commitment agreements on a consistent basis, therefore, they are not able to evaluate if donors have made an unconditional promise to give with payments due in future periods.

Effect: An adjustment was required during 2018 to properly reflect outstanding pledges receivable at June 30, 2018.

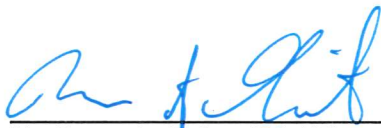
Views of Responsible Officials of the Auditee: We concur with the finding noted above – see the Corrective Action Plan at page 22

Investment Office
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Miami University Foundation

**Corrective Action Plan
June 30, 2018**

Significant adjustments to internal control over pledge recording have been implemented over the past year. First, an accountant has been added to the Advancement Services team to provide additional review and oversight of all new gifts being entered into the gift database. In addition, under a new process, a review committee consisting of representatives from the Treasury Office, General Accounting, and Advancement Services meets on a weekly basis to review documentation related to new pledges and substantial gifts to create awareness, agree upon circumstances and donor intent, and ensure proper coding. Management believes that the identified error would not have occurred under the current review process and will prevent errors in the future.



Mr. Bruce A. Guiot, Chief Financial Officer



Date



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
NOVEMBER 8, 2018**