



# *Miami University Foundation*

Financial Report  
June 30, 2013



**MIAMI**  
FOR LOVE AND HONOR





# 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, 2012 through June 30, 2013. 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

November 5, 2013

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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 statement of financial position of Miami University Foundation as of June 30, 2013, 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matter

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 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 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 14, 2013, 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 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.

*McGladrey LLP*

Cleveland, Ohio  
October 14, 2013

Miami University Foundation

Statement of Financial Position

June 30, 2013

(with Comparative Totals for June 30, 2012)

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 27,951,798	\$ 26,498,190
Pledges receivable, net	32,805,022	44,773,011
Other receivables, primarily investment related	1,284,682	5,174,449
Investments	406,056,530	376,222,919
Cash value of paid-up life insurance	1,722,369	1,650,796
Real estate investments	232,875	499,415
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<b>Total assets</b>	<b>\$ 470,053,276</b>	<b>\$ 454,818,780</b>
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<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 14,095,399	\$ 13,792,870
Assets held for other entities	166,253,432	158,355,422
Deferred revenue	2,064,303	2,350,000
Obligations under split-interest agreements	4,239,871	3,946,958
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>186,653,005</b>	<b>178,445,250</b>
	<hr/>	<hr/>
<b>Net Assets</b>		
Unrestricted	852,985	(104,812)
Temporarily restricted	116,115,163	115,915,292
Permanently restricted	166,432,123	160,563,050
	<hr/>	<hr/>
<b>Total net assets</b>	<b>283,400,271</b>	<b>276,373,530</b>
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<b>Total liabilities and net assets</b>	<b>\$ 470,053,276</b>	<b>\$ 454,818,780</b>
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See Notes to Financial Statements.

**Miami University Foundation**

**Statement of Activities**

**Year Ended June 30, 2013**

**(with Comparative Totals for the Year Ended June 30, 2012)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Revenues and Other Additions					
Contributions	\$ -	\$ (1,295,923)	\$ 5,658,546	\$ 4,362,623	\$ 20,030,331
Investment income					
Dividend and interest income, net	5,788	2,686,066		2,691,854	2,455,266
Net realized and change in unrealized gains (losses)	1,023,961	19,974,991	2,452	21,001,404	(8,307,617)
Net investment income	1,029,749	22,661,057	2,452	23,693,258	(5,852,351)
Change in value of split-interest agreements		857,816		857,816	(177,141)
Net assets released from restrictions due to satisfaction of donor restrictions	21,815,004	(22,023,079)	208,075	-	-
<b>Total revenues and other additions</b>	<b>22,844,753</b>	<b>199,871</b>	<b>5,869,073</b>	<b>28,913,697</b>	<b>14,000,839</b>
Expenses and Other Deductions					
Distributions to Miami University (Note 6)	19,672,471			19,672,471	18,662,382
Other expenses	31,736			31,736	-
Administrative expenses (Note 6)	2,182,749			2,182,749	1,946,345
<b>Total expenses and other deductions</b>	<b>21,886,956</b>	<b>-</b>	<b>-</b>	<b>21,886,956</b>	<b>20,608,727</b>
<b>Change in net assets</b>	<b>957,797</b>	<b>199,871</b>	<b>5,869,073</b>	<b>7,026,741</b>	<b>(6,607,888)</b>
Net assets - beginning of year	(104,812)	115,915,292	160,563,050	276,373,530	282,981,418
Net assets - end of year	\$ 852,985	\$ 116,115,163	\$ 166,432,123	\$ 283,400,271	\$ 276,373,530

See Notes to Financial Statements.

**Miami University Foundation**

**Statement of Cash Flows**

**Year Ended June 30, 2013**

**(with Comparative Totals for the Year Ended June 30, 2012)**

	2013	2012
Cash Flows From Operating Activities		
Payments to Miami University, net	<b>\$ (20,296,966)</b>	\$ (21,251,225)
<b>Net cash (used in) operating activities</b>	<b>(20,296,966)</b>	(21,251,225)
Cash Flows From Investing Activities		
Proceeds from sale of investments	<b>112,855,391</b>	176,289,318
Purchase of investments	<b>(100,715,317)</b>	(173,090,721)
Assets held for other entities	<b>(9,160,612)</b>	(1,225,407)
<b>Net cash provided by investing activities</b>	<b>2,979,462</b>	1,973,190
Cash Flows From Financing Activities		
Contributions restricted for endowment investment	<b>16,575,956</b>	22,725,679
Interest and dividends, restricted	<b>2,573,070</b>	2,208,736
Interest utilized for payment of split-interest obligations	<b>336,403</b>	323,720
Payments on split-interest obligations	<b>(714,317)</b>	(706,763)
<b>Net cash provided by investing activities</b>	<b>18,771,112</b>	24,551,372
<b>Net increase in cash and cash equivalents</b>	<b>1,453,608</b>	5,273,337
Cash and cash equivalents		
Beginning of year	<b>26,498,190</b>	21,224,853
End of year	<b>\$ 27,951,798</b>	\$ 26,498,190

(Continued)

**Miami University Foundation**

**Statement of Cash Flows (Continued)**

**Year Ended June 30, 2013**

**(with Comparative Totals for the Year Ended June 30, 2012)**

	<b>2013</b>	<b>2012</b>
Reconciliation of change in net assets to net cash (used in) operating activities		
Change in net assets	<b>\$ 7,026,741</b>	<b>\$ (6,607,888)</b>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Increase (decrease) in accounts payable and other liabilities	<b>1,589,990</b>	(642,498)
Contributions restricted for long-term investment	<b>(4,362,623)</b>	(20,030,331)
Net change in value of split-interest agreements	<b>(857,816)</b>	177,141
Interest and dividends	<b>(2,691,854)</b>	(2,455,266)
Net realized and change in unrealized (gains) losses on investments	<b>(21,001,404)</b>	8,307,617
<b>Net cash (used in) operating activities</b>	<b><u>\$ (20,296,966)</u></b>	<b><u>\$ (21,251,225)</u></b>

See Notes to Financial Statements.

## Miami University Foundation

### Notes to the Financial Statements

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#### 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 seven 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 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 and STAR Plus) 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

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#### 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 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. 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, 2010. As of June 30, 2013, the Foundation has no uncertain tax positions.

**Subsequent events:** The Foundation has evaluated events occurring between the end of its most recent fiscal year and October 14, 2013, the date the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

## Miami University Foundation

### Notes to the Financial Statements

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#### Note 3. Pledges Receivable

At June 30, 2013, contributors to the Foundation have made unconditional pledges totaling \$39,286,386 with 17 pledges accounting for over 50% of that total. Net pledges receivable have been discounted using interest rates to a net present value of \$36,338,299, at June 30, 2013. Discount rates ranged from 1.20% to 6.00%. 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 \$3,533,277 at June 30, 2013. 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, 2013, net pledges are due as follows:

Unconditional pledges expected to be collected:	
Within one year	\$ 15,863,866
Between two and five years	18,821,105
In more than five years	4,601,415
Pledges receivable	<u>39,286,386</u>
Less discount on pledges	(2,948,087)
Less allowance for uncollectible pledges	<u>(3,533,277)</u>
<b>Pledges receivable, net</b>	<b><u><u>\$ 32,805,022</u></u></b>

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.

#### Note 4. Investments

Investments held by the Foundation as of June 30, 2013 were:

<u>Investment Description</u>	<u>Fair Value</u>
Domestic public equities	\$ 27,416,233
Global public equities	107,076,280
International public equities	13,858,465
Domestic public fixed income	17,412,122
Global public fixed income	22,122,356
Hedge funds	109,692,536
Private investments	95,989,557
Split-Interest Funds:	
Charitable remainder trusts	9,009,640
Charitable gift annuities	2,998,438
Pooled income funds	480,903
<b>Total</b>	<b><u><u>\$ 406,056,530</u></u></b>

## Miami University Foundation

### Notes to the Financial Statements

#### Note 4. Investments (Continued)

Included in the Foundation's investment pool (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 at fair value for the 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, 2012	\$ 155,203,590	\$ 3,003,320	\$ 148,512	\$ 158,355,422
New investments		56,643		56,643
Earnings distribution	(8,000,000)			(8,000,000)
Dividend and interest income	1,917,755	37,516	1,839	1,957,110
Net unrealized and realized gains	13,785,783	275,627	13,444	14,074,854
Value as of June 30, 2013	162,907,128	3,373,106	163,795	166,444,029
Distribution payable (included in accounts payable and other liabilities)	(25,890)	(157,013)	(7,694)	(190,597)
<b>Assets held for other entities at June 30, 2013</b>	<b>\$ 162,881,238</b>	<b>\$ 3,216,093</b>	<b>\$ 156,101</b>	<b>\$ 166,253,432</b>

The Pooled Fund portfolio's fair value was \$392,924,680 at June 30, 2013. 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, 2013, the Foundation has made commitments to limited partnerships of approximately \$27.4 million that have not yet been funded.

The 2013 dividend and interest income of \$2,691,854, as reported in the Statement of Activities, is net of fees from external investment managers totaling \$349,625.

## Miami University Foundation

### Notes to the Financial Statements

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#### Note 5. Fair Value Measurements

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 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 of the investment 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, 2013:

	Level 1	Level 2	Level 3	Total
Domestic public equities	\$ 13,765,021	\$ 13,651,212	\$ -	\$ 27,416,233
Global public equities	50,627,697	56,448,583		107,076,280
International public equities	10,092,049	3,766,416		13,858,465
Domestic public fixed income		17,412,122		17,412,122
Global public fixed income	16,980,843	5,141,513		22,122,356
Hedge funds		109,692,536		109,692,536
Private investments			95,989,557	95,989,557
Split-Interest Funds:				
Charitable remainder trusts	9,009,640			9,009,640
Charitable gift annuities	2,998,438			2,998,438
Pooled income funds	480,903			480,903
<b>Total</b>	<b>\$ 103,954,591</b>	<b>\$ 206,112,382</b>	<b>\$ 95,989,557</b>	<b>\$ 406,056,530</b>

## 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, 2013:

Balances as of July 1, 2012	\$ 95,013,447
Purchases of investments	10,398,874
Proceeds from sale of investments	(15,750,675)
Net realized and unrealized gains on investments	6,327,911
<b>Balances as of June 30, 2013</b>	<b>\$ 95,989,557</b>

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.

The Foundation's endowment consists of approximately 1,476 separate accounts established since its inception. The following presents a summary of changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	\$ (106,812)	\$ 55,334,010	\$ 160,337,791	\$ 215,564,989
Contributions		239,429	5,658,546	5,897,975
Dividend and interest income, net of investment expense	5,626	2,671,293	-	2,676,919
Realized and unrealized gains	1,017,409	19,947,766	2,452	20,967,627
Net assets released from restrictions and other changes	12,364,780	(12,301,767)	208,075	271,088
Distributions to Miami University	(10,236,269)			(10,236,269)
Other expenses	(10,000)			(10,000)
Administrative expenses	(2,182,749)			(2,182,749)
<b>Endowment net assets, June 30, 2013</b>	<b>\$ 851,985</b>	<b>\$ 65,890,731</b>	<b>\$ 166,206,864</b>	<b>\$ 232,949,580</b>

## Miami University Foundation

### Notes to the Financial Statements

#### Note 6. Endowment (Continued)

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 953,682	\$ -	\$ -	\$ 953,682
Donor restricted endowment	(101,697)	65,890,731	166,206,864	231,995,898
	<u>\$ 851,985</u>	<u>\$ 65,890,731</u>	<u>\$ 166,206,864</u>	<u>\$ 232,949,580</u>

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 \$101,697 as of June 30, 2013. 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.

The total calculated spending amount in 2013 was \$19,396,001 which includes \$8,190,597 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, \$9,978,575 was distributed to Miami University from Foundation endowments. In addition to current year endowment distributions, \$9,693,896 was distributed to the University in satisfaction of donor restrictions. The following summarizes the programs supported by the current year's distribution:

	Spending Rate and Special Distribution	Donor Stipulated Distribution	Total Distributions to Miami University
Scholarships and fellowships	\$ 4,776,539	\$ 79,856	\$ 4,856,395
Academic support	4,003,935	380,593	4,384,528
Student services/athletics	372,837	50,007	422,844
Campus improvements	31,991	7,250,543	7,282,534
Other institutional support	793,273	1,932,897	2,726,170
<b>Total distributions to Miami University</b>	<u>\$ 9,978,575</u>	<u>\$ 9,693,896</u>	<u>\$ 19,672,471</u>

## Miami University Foundation

### Notes to the Financial Statements

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#### Note 6. Endowment (Continued)

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 31<sup>st</sup> 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 \$2,182,749 was reimbursed to Miami University in 2013 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.

#### 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, 2013:

<u>Miami University Program Supported</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Scholarships and fellowships	\$ (59,232)	\$ 22,698,899	\$ 79,836,657	\$ 102,476,324
Academic support	(2,299)	27,285,400	65,065,108	92,348,209
Student services/athletics	(1,307)	1,966,463	6,958,374	8,923,530
Campus improvements	-	7,530,533	585,565	8,116,098
Other and undesignated	915,823	56,633,868	13,986,419	71,536,110
<b>Total net assets</b>	<b>\$ 852,985</b>	<b>\$ 116,115,163</b>	<b>\$ 166,432,123</b>	<b>\$ 283,400,271</b>

## **Supplementary Information**

**Miami University Foundation**

**Schedule of Changes in Net Assets  
Year Ended June 30, 2013**

	Balance July 1, 2012	Contributions	Endowment Income	Net Market Adjustment	Transfers To Miami	Intrafund Transfers	Other	Balance June 30, 2013
Pooled endowment funds	\$ 215,315,855	\$ 5,897,975	\$ 2,674,703	\$ 18,777,626	\$ (10,233,252)	\$ 271,088	\$ (10,000)	\$ 232,693,995
Non-pooled endowment funds	249,134	-	2,216	7,252	(3,017)	-	-	255,585
<b>Total endowment funds</b>	215,564,989	5,897,975	2,676,919	18,784,878	(10,236,269)	271,088	(10,000)	232,949,580
Expendable funds - donor restricted for capital projects	6,089,287	7,931,724	11,882	(12,592)	(7,250,544)	87,398	-	6,857,155
Expendable and board discretionary funds-non capital	1,979,204	1,758,667	2,831	(175)	(2,184,343)	217,233	-	1,773,417
Accumulated cash value insurance	1,650,796	28,717	58	78,084	-	(35,286)	-	1,722,369
Other investment funds	829,809	-	164	(31,540)	(1,315)	(210,245)	(21,735)	565,138
Net split-interest funds	5,486,434	517,088	-	-	-	(330,188)	932,801	6,606,135
Pledges receivable	44,773,011	(11,771,548)	-	-	-	(196,441)	-	32,805,022
Interest in trusts held by others	-	-	-	-	-	196,441	(74,986)	121,455
<b>Total net assets</b>	<b>\$ 276,373,530</b>	<b>\$ 4,362,623</b>	<b>\$ 2,691,854</b>	<b>\$ 18,818,655</b>	<b>\$ (19,672,471)</b>	<b>\$ -</b>	<b>\$ 826,080</b>	<b>\$ 283,400,271</b>

**Detail of Net Market Adjustment**

Net Unrealized and Realized Gains/(Losses)	Administrative Expense	Net Market Adjustment
\$ 21,001,404	\$ (2,182,749)	\$ 18,818,655

**Miami University Foundation**

**Schedule of Investments**

**June 30, 2013**

**(With Comparative Totals for June 30, 2012)**

Description	2013 Fair Value	2012 Fair Value
<b>Pooled Funds</b>		
Domestic Public Equities		
Eagle Global Advisors	\$ 13,651,212	\$ 8,707,452
Lateef Investment Management	13,686,291	12,004,983
<b>Total Domestic Public Equities</b>	<b>27,337,503</b>	20,712,435
Global Public Equities		
Aberdeen Asset Management, Inc.	35,071,240	31,045,494
Baring Asset Management	21,377,343	-
MSCI ACWI iShares	23,664,850	20,763,539
RS Investments	1,936,427	-
Tradewinds Global Investors	-	30,835,849
Virtus Investment Partners	25,026,420	21,839,711
<b>Total Global Public Equities</b>	<b>107,076,280</b>	104,484,593
International Public Equities		
Lone Pine Capital	3,766,416	3,484,921
Tradewinds Emerging Markets	-	3,336,381
Virtus Investment Partners	10,092,049	6,196,832
<b>Total International Public Equities</b>	<b>13,858,465</b>	13,018,134
Domestic Public Fixed Income		
Commonfund - High Quality Bond Fund	17,412,122	17,729,871
<b>Total Domestic Public Fixed Income</b>	<b>17,412,122</b>	17,729,871
Global Public Fixed Income		
Beach Point Capital Management	5,141,513	-
Franklin Templeton Investments	16,980,843	16,321,200
<b>Total Global Public Fixed Income</b>	<b>22,122,356</b>	16,321,200
Hedge Funds		
Beach Point Capital Management	11,064,950	-
Canyon Capital Advisors	23,293,750	19,907,095
Evanston Capital	20,446,611	23,095,552
GoldenTree Asset Management	23,431,561	20,234,115
GRT Capital Partners	-	4,186,802
Ivory Investment Management	-	15,456,398
Sandler Capital	10,185,953	4,953,651
Standard Pacific	10,242,956	4,703,919
Starboard Value LP	5,674,435	5,103,720
Strategic Value Partners	5,352,320	-
<b>Total Hedge Funds</b>	<b>109,692,536</b>	97,641,252
Private Investments		
Commonfund (18 funds) - Various	23,145,471	23,886,595
Goldman Sachs (4 funds) - Various	26,252,605	25,757,204
Hamilton Lane Advisors (2 funds) - Equities	16,076,076	16,251,548
Metropolitan - Real Estate	3,619,297	3,428,719
Penn Square Capital Group (2 funds) - Real Estate	12,290,531	11,925,084
Pomona Capital - Equities	2,853,283	3,561,407
Timbervest (2 funds) - Natural Resources	10,899,131	9,140,711
United Educators	289,024	499,540
<b>Total Private Investments</b>	<b>95,425,418</b>	94,450,808
<b>Total pooled funds</b>	<b>392,924,680</b>	364,358,293

(Continued)

**Miami University Foundation**

**Schedule of Investments (Continued)**

**June 30, 2013**

**(With Comparative Totals for June 30, 2012)**

Description	2013 Fair Value	2012 Fair Value
<b>Separately Invested Funds</b>		
Domestic Public Equities		
Student managed investment portfolio	\$ 77,730	\$ 79,913
GSEP 2005 Realty Corp	1,000	1,000
GSEP 2006 Realty Corp	-	1,000
<b>Total Domestic Public Equities</b>	<b>78,730</b>	<b>81,913</b>
Private Investments		
Longford Limited Partnership	13,899	13,899
Longview Energy Company	210,360	210,360
Nuclea Biotechnologies	337,380	337,380
Student Venture Funds	2,500	1,000
<b>Total Private Investments</b>	<b>564,139</b>	<b>562,639</b>
<b>Total separately invested funds</b>	<b>642,869</b>	<b>644,552</b>
<b>Split-Interest Funds</b>		
BMO Harris Bank		
Domestic public equities	1,811,174	1,204,425
International public equities	103,285	121,345
Domestic public fixed income	704,683	522,908
<b>Total Marshall &amp; Ilsley Trust Company</b>	<b>2,619,142</b>	<b>1,848,678</b>
PNC Bank		
Domestic public equities	3,987,793	3,645,868
International public equities	423,340	484,711
Domestic public fixed income	5,458,706	5,240,817
<b>Total PNC Bank</b>	<b>9,869,839</b>	<b>9,371,396</b>
<b>Total Split-Interest Funds</b>	<b>12,488,981</b>	<b>11,220,074</b>
<b>Grand total</b>	<b>\$ 406,056,530</b>	<b>\$ 376,222,919</b>



**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, 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, 2013, 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 14, 2013.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

**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)**

**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.

*McGladrey LLP*

Cleveland, Ohio  
October 14, 2013

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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  
NOVEMBER 19, 2013**