

MU



Miami University Foundation

Financial Report

June 30, 2015





Dave Yost • Auditor of State

Board of Directors
Miami University Foundation
107 Roudebush Hall
Oxford, OH 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, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 10, 2015

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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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 12, 2015, 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 12, 2015

Miami University Foundation

Statement of Financial Position

June 30, 2015

(With Comparative Totals for June 30, 2014)

| | 2015 | 2014 |
|-------------------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 35,553,522 | \$ 31,360,556 |
| Pledges receivable, net | 39,749,868 | 33,331,309 |
| Other receivables, primarily investment related | 481,303 | 506,262 |
| Investments | 443,923,908 | 449,162,441 |
| Cash value of life insurance | 1,958,834 | 1,812,490 |
| Real estate investments | 262,875 | 4,632,875 |
| | <hr/> | <hr/> |
| Total assets | \$ 521,930,310 | \$ 520,805,933 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities | | |
| Accounts payable and other liabilities | \$ 16,201,846 | \$ 15,534,806 |
| Assets held for other entities | 177,268,370 | 182,499,614 |
| Deferred revenue | 1,982,513 | 2,001,996 |
| Obligations under split-interest agreements | 4,330,754 | 4,314,964 |
| | <hr/> | <hr/> |
| Total liabilities | 199,783,483 | 204,351,380 |
| | <hr/> | <hr/> |
| Net Assets | | |
| Unrestricted | 716,307 | 1,025,774 |
| Temporarily restricted | 133,829,531 | 139,682,354 |
| Permanently restricted | 187,600,989 | 175,746,425 |
| | <hr/> | <hr/> |
| Total net assets | 322,146,827 | 316,454,553 |
| | <hr/> | <hr/> |
| Total liabilities and net assets | \$ 521,930,310 | \$ 520,805,933 |
| | <hr/> <hr/> | <hr/> <hr/> |

See Notes to Financial Statements.

Miami University Foundation

Statement of Activities

Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 Total | 2014 Total |
|---------------------------------------------------------------------------------|-------------------|------------------------|------------------------|-------------------|-------------------|
| Revenues and Other Additions | | | | | |
| Contributions | \$ 15,261 | \$ 17,720,306 | \$ 11,744,736 | \$ 29,480,303 | \$ 22,622,963 |
| Investment income | | | | | |
| Dividend and interest income, net | 5,511 | 2,430,485 | - | 2,435,996 | 3,345,497 |
| Net realized and unrealized (losses) gains | (359,334) | 2,637,742 | (209,360) | 2,069,048 | 32,546,153 |
| Net investment income | (353,823) | 5,068,227 | (209,360) | 4,505,044 | 35,891,650 |
| Change in value of split-interest agreements | - | 22,467 | - | 22,467 | 1,371,123 |
| Net assets released from restrictions due to satisfaction of donor restrictions | 28,344,635 | (28,663,823) | 319,188 | - | - |
| Total revenues and other additions | 28,006,073 | (5,852,823) | 11,854,564 | 34,007,814 | 59,885,736 |
| Expenses and Other Deductions | | | | | |
| Distributions to Miami University (Note 6) | 25,407,833 | - | - | 25,407,833 | 24,214,321 |
| Other expenses | 272,485 | - | - | 272,485 | 179,375 |
| Administrative expenses (Note 6) | 2,635,222 | - | - | 2,635,222 | 2,437,758 |
| Total expenses and other deductions | 28,315,540 | - | - | 28,315,540 | 26,831,454 |
| Change in net assets | (309,467) | (5,852,823) | 11,854,564 | 5,692,274 | 33,054,282 |
| Net assets - beginning of year | 1,025,774 | 139,682,354 | 175,746,425 | 316,454,553 | 283,400,271 |
| Net assets - end of year | \$ 716,307 | \$ 133,829,531 | \$ 187,600,989 | \$ 322,146,827 | \$ 316,454,553 |

See Notes to Financial Statements.

Miami University Foundation

Statement of Cash Flows

Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

| | 2015 | 2014 |
|-----------------------------------------------------------------------------------------|------------------------|-----------------|
| Cash Flows From Operating Activities | | |
| Payments to Miami University, net | \$ (27,938,901) | \$ (25,633,242) |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of investments | 80,764,518 | 87,127,680 |
| Purchase of investments | (72,260,390) | (76,452,597) |
| Proceeds from sale of real estate | 4,400,000 | - |
| Assets held for other entities | (6,637,459) | (5,055,461) |
| Net cash provided by investing activities | 6,266,669 | 5,619,622 |
| Cash Flows From Financing Activities | | |
| Contributions restricted for long-term investment | 23,851,840 | 20,382,631 |
| Interest and dividends, restricted | 2,419,158 | 3,464,267 |
| Interest utilized for payment of split-interest obligations | 460,952 | 333,368 |
| Payments on split-interest obligations | (866,752) | (757,888) |
| Net cash provided by financing activities | 25,865,198 | 23,422,378 |
| Net increase in cash and cash equivalents | 4,192,966 | 3,408,758 |
| Cash and cash equivalents | | |
| Beginning | 31,360,556 | 27,951,798 |
| Ending | \$ 35,553,522 | \$ 31,360,556 |
| Reconciliation of change in net assets to net cash used in operating activities | | |
| Change in net assets | \$ 5,692,274 | \$ 33,054,282 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Increase in accounts payable and other liabilities | 376,639 | 1,198,212 |
| Contributions restricted for long-term investment | (29,480,303) | (22,622,963) |
| Net change in value of split-interest agreements | (22,467) | (1,371,123) |
| Interest and dividends | (2,435,996) | (3,345,497) |
| Net realized and unrealized gains on investments | (2,069,048) | (32,546,153) |
| Net cash used in operating activities | \$ (27,938,901) | \$ (25,633,242) |

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 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, the 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

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.

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, 2012. As of June 30, 2015, the Foundation has no uncertain tax positions.

Recent accounting pronouncements: Accounting Standards Update (ASU 2015-07), Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent) – This ASU removes the requirement to categorize, within the fair value hierarchy, investments for which fair values are measured at NAV using the practical expedient. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice in how investments measured at NAV (or its equivalent) with future redemption dates are classified but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. For all non-public entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Foundation has elected early adoption of this ASU for the year ended June 30, 2015.

Miami University Foundation

Notes to the Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Foundation has evaluated events occurring between the end of its most recent fiscal year and October 12, 2015, the date the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

Note 3. Pledges Receivable

At June 30, 2015, contributors to the Foundation have made unconditional pledges totaling \$43,411,061 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 \$40,948,848, at June 30, 2015. 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 \$1,198,980 at June 30, 2015. All pledges have been classified as temporarily restricted net assets since they will either expire or be fulfilled within a specified time or donor-imposed stipulations. At June 30, 2015, net pledges are due as follows:

| | |
|-------------------------------------------------|----------------------|
| Unconditional pledges expected to be collected: | |
| Within one year | \$ 11,719,126 |
| Between two and five years | 23,599,400 |
| In more than five years | 8,092,535 |
| Pledges receivable | 43,411,061 |
| Less discount on pledges | (2,462,213) |
| Less allowance for uncollectible pledges | (1,198,980) |
| Pledges receivable, net | \$ 39,749,868 |

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, 2015 were:

| <u>Investment Description</u> | <u>Fair Value</u> |
|----------------------------------------------|-----------------------|
| Domestic public equities | \$ 31,122,745 |
| Global public equities | 136,020,546 |
| International public equities | 10,257,373 |
| Domestic public fixed income | 2,490,323 |
| Global public fixed income | 26,807,206 |
| Hedge funds | 143,933,946 |
| Limited partnerships and non-public equities | 79,309,360 |
| Split-Interest Funds: | |
| Charitable remainder trusts | 10,154,938 |
| Charitable gift annuities | 3,275,443 |
| Pooled income funds | 552,028 |
| Total | \$ 443,923,908 |

Miami University Foundation

Notes to the Financial Statements

Note 4. Investments (Continued)

The Pooled Fund portfolio's fair value was \$429,049,841 at June 30, 2015. 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, 2015, the Foundation has made commitments to limited partnerships of approximately \$21.1 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 partnership.

The 2015 dividend and interest income of \$2,435,996, as reported in the statement of activities, is net of fees from external investment managers totaling \$345,225.

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 equal to the 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, 2014 | \$ 178,765,367 | \$ 3,565,348 | \$ 168,899 | \$ 182,499,614 |
| New investments | 1,914,268 | 50,000 | - | 1,964,268 |
| Earnings distribution | (8,300,000) | - | - | (8,300,000) |
| Dividend and interest income | 1,631,245 | 32,636 | 1,542 | 1,665,423 |
| Net unrealized and realized (losses) | (375,987) | (8,657) | (393) | (385,037) |
| Value as of June 30, 2014 | 173,634,893 | 3,639,327 | 170,048 | 177,444,268 |
| Distribution payable (included in accounts payable and other liabilities) | (1,949) | (166,103) | (7,846) | (175,898) |
| Assets held for other entities at June 30, 2015 | \$ 173,632,944 | \$ 3,473,224 | \$ 162,202 | \$ 177,268,370 |

Miami University Foundation

Notes to the Financial Statements

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 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.

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, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------------------|-----------------------|----------------------|----------------------|-----------------------|
| Investment Assets: | | | | |
| Domestic public equities | \$ 16,697,684 | \$ 14,425,061 | \$ - | \$ 31,122,745 |
| Global public equities | 104,458,732 | 4,837,821 | - | 109,296,553 |
| International public equities | 10,257,373 | - | - | 10,257,373 |
| Global public fixed income | 15,934,870 | - | - | 15,934,870 |
| Limited partnerships and non-public equities | - | - | 79,309,360 | 79,309,360 |
| Split-interest funds: | | | | |
| Charitable remainder trusts | 10,154,938 | - | - | 10,154,938 |
| Charitable gift annuities | 3,275,443 | - | - | 3,275,443 |
| Pooled income funds | 552,028 | - | - | 552,028 |
| | <u>\$ 161,331,068</u> | <u>\$ 19,262,882</u> | <u>\$ 79,309,360</u> | <u>\$ 259,903,310</u> |

Funds reported at fair value based on net asset value:

| | |
|--------------------------------|-----------------------|
| Non-publicly traded funds | \$ 40,086,652 |
| Hedge funds | 143,933,946 |
| Total Investment assets | <u>\$ 443,923,908</u> |

Investment Liabilities:

| | | | | |
|-------------------------------------|-------------|-------------|---------------------|---------------------|
| Split-interest funds: | | | | |
| Charitable remainder trusts | \$ - | \$ - | \$ 2,211,740 | \$ 2,211,740 |
| Charitable gift annuities | - | - | 2,117,240 | 2,117,240 |
| Pooled income funds | - | - | 1,774 | 1,774 |
| Total Investment liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,330,754</u> | <u>\$ 4,330,754</u> |

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, 2015:

| | Limited Partnerships and Non-Public | |
|--------------------------------------------|----------------------------------------|-------------------------|
| | Equities | Split-Interest Funds |
| Balances as of July 1, 2014 | \$ 93,675,365 | \$ (4,314,964) |
| Purchases of investments | 8,503,283 | - |
| Proceeds from sale of investments | (24,250,121) | - |
| Net realized and unrealized gains (losses) | 1,380,833 | (15,790) |
| Balances as of June 30, 2015 | \$ 79,309,360 | \$ (4,330,754) |

The total Level 3 changes in net unrealized gains (losses) for the year relating to those investments and split-interest funds still held at June 30, 2015 was \$2,326,626, and is reflected as part of net realized and unrealized (losses) gains in the statement of activities.

| | Fair Value (in millions) | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|-------------------------------------------------|-----------------------------|-------------------------|-------------------------------------------------------|--------------------------------|
| Non-publicly traded equity funds ^(a) | \$ 26,723,993 | \$ - | monthly | 10 days |
| Non-publicly traded debt funds ^(b) | 13,362,659 | - | weekly, monthly | 5 - 90 days |
| Hedged equity funds ^(c) | 64,215,662 | - | various | 30 - 60 days |
| Hedged debt funds ^(d) | 79,718,284 | - | quarterly | 45 - 95 days |
| Total | \$ 184,020,598 | \$ - | | |

(a) This class includes primarily 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 primarily 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 redemption frequency for these funds range from weekly to up to 3 years. 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 \$11.7 million, has an initial 3-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. One investment, valued at \$9.9 million, has an ongoing 3-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.

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.

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 1,633 separate accounts established since its inception. The following presents a summary of changes in endowment net assets for the year ended June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------------------------|-------------------|------------------------|------------------------|-----------------------|
| Endowment net assets, July 1, 2014 | \$ 1,025,774 | \$ 84,574,789 | \$ 175,521,166 | \$ 261,121,729 |
| Contributions | 15,261 | 222,481 | 11,744,736 | 11,982,478 |
| Dividend and interest income, net of investment expense | 5,511 | 2,418,213 | - | 2,423,724 |
| Realized and unrealized (losses) gains | (359,334) | 2,064,822 | - | 1,705,488 |
| Net assets released from restrictions and other changes | 14,729,897 | (14,533,306) | 319,188 | 515,779 |
| Distributions to Miami University | (12,063,329) | - | - | (12,063,329) |
| Other expenses | (2,251) | - | - | (2,251) |
| Administrative expenses | (2,635,222) | - | - | (2,635,222) |
| Endowment net assets, June 30, 2015 | \$ 716,307 | \$ 74,746,999 | \$ 187,585,090 | \$ 263,048,396 |

Endowment net asset composition by type of fund as of June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------------------------|-------------------|------------------------|------------------------|-----------------------|
| Funds functioning as endowment | \$ 764,043 | \$ - | \$ - | \$ 764,043 |
| Donor restricted endowment | (47,736) | 74,746,999 | 187,585,090 | 262,284,353 |
| | \$ 716,307 | \$ 74,746,999 | \$ 187,585,090 | \$ 263,048,396 |

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 \$47,736 as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

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 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 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 2015 was \$20,808,911 which includes \$8,475,898 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, \$11,055,984 was distributed to Miami University from Foundation endowments. In addition to current year endowment distributions, \$14,351,849 of non-endowed funds were distributed to the University in satisfaction of donor restrictions. The following summarizes the programs supported by the current year's distribution:

| <u>Miami University Program Supported</u> | <u>Spending Rate and Special Distribution</u> | <u>Donor Stipulated Distribution</u> | <u>Total Distributions to Miami University</u> |
|------------------------------------------------|-------------------------------------------------------|----------------------------------------------|--------------------------------------------------------|
| Scholarships and fellowships | \$ 5,302,533 | \$ 70,534 | \$ 5,373,067 |
| Academic support | 4,483,662 | 378,350 | 4,862,012 |
| Student services/athletics | 403,659 | 610,596 | 1,014,255 |
| Campus improvements | 33,971 | 11,226,426 | 11,260,397 |
| Other institutional support | 832,159 | 2,065,943 | 2,898,102 |
| Total distributions to Miami University | \$ 11,055,984 | \$ 14,351,849 | \$ 25,407,833 |

Miami University incurs certain expenses related to development and investment related expenses relative to endowment management as well as fundraising efforts for the benefit of the Foundation; consequently, the Foundation does not report fundraising expenses. The University is reimbursed for its expenses in the form of a maximum administrative fee of 1.0% calculated against the previous fiscal year's March 31st value of the Foundation investment pool. The administrative fee is funded from current and accumulated earnings from all funds holding shares in the Foundation investment pool, including the assets held for other entities; funds with insufficient accumulated earnings are not charged thereby reducing the maximum administrative fee payable. A total of \$2,635,222 was reimbursed to Miami University in 2015 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.

Miami University Foundation

Notes to the Financial Statements

Note 7. Split-Interest Agreements (Continued)

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, 2015:

| <u>Miami University Program Supported</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------------|---------------------|-----------------------------------|-----------------------------------|-----------------------|
| Scholarships and fellowships | \$ (31,391) | \$ 26,845,494 | \$ 92,781,095 | \$ 119,595,198 |
| Academic support | (11,395) | 31,690,813 | 72,804,565 | 104,483,983 |
| Student services/athletics | (4,950) | 1,716,697 | 7,520,206 | 9,231,953 |
| Campus improvements | - | 6,904,210 | 582,590 | 7,486,800 |
| Other and undesignated | 764,043 | 66,672,317 | 13,912,533 | 81,348,893 |
| Total net assets | \$ 716,307 | \$ 133,829,531 | \$ 187,600,989 | \$ 322,146,827 |

Supplementary Information

Miami University Foundation

**Schedule of Changes in Net Assets
Year Ended June 30, 2015**

| | Balance July 1, 2014 | Contributions | Endowment Income | Market Adjustment, Net | Transfers To Miami | Intrafund Transfers | Other | Balance June 30, 2015 |
|----------------------------------------------------------|-------------------------|----------------------|---------------------|---------------------------|------------------------|------------------------|---------------------|--------------------------|
| Pooled endowment funds | \$ 260,852,138 | \$ 11,982,478 | \$ 2,420,675 | \$ (935,030) | \$ (12,060,449) | \$ 515,779 | \$ (2,251) | \$ 262,773,340 |
| Non-pooled endowment funds | 269,591 | - | 3,049 | 5,296 | (2,880) | - | - | 275,056 |
| Total endowment funds | 261,121,729 | 11,982,478 | 2,423,724 | (929,734) | (12,063,329) | 515,779 | (2,251) | 263,048,396 |
| Expendable funds - donor restricted for capital projects | 5,029,637 | 8,368,378 | 9,643 | 20,668 | (7,257,107) | - | - | 6,171,219 |
| Expendable and board discretionary funds-non capital | 2,008,698 | 1,860,691 | 2,613 | (636) | (2,130,756) | 208,058 | - | 1,948,668 |
| Accumulated cash value insurance | 1,812,490 | 3,576 | 16 | 142,768 | - | (16) | - | 1,958,834 |
| Other investment funds | 4,791,162 | 45,000 | - | 200,760 | (3,956,641) | 25,000 | (270,234) | 835,047 |
| Net split-interest funds | 8,224,821 | 723,736 | - | - | - | (748,821) | 19,245 | 8,218,981 |
| Pledges receivable | 33,331,309 | 6,418,559 | - | - | - | - | - | 39,749,868 |
| Interest in trusts held by others | 134,707 | 77,885 | - | - | - | - | 3,222 | 215,814 |
| Total net assets | \$ 316,454,553 | \$ 29,480,303 | \$ 2,435,996 | \$ (566,174) | \$ (25,407,833) | \$ - | \$ (250,018) | \$ 322,146,827 |

Detail of Market Adjustment, Net

| Net Unrealized and Realized Gains | Administrative Expense | Market Adjustment, Net |
|-----------------------------------------|---------------------------|------------------------------|
| \$ 2,069,048 | \$ (2,635,222) | \$ (566,174) |

Miami University Foundation

Schedule of Investments

June 30, 2015

(With Comparative Totals for June 30, 2014)

| Description | 2015 Fair Value | 2014 Fair Value |
|---------------------------------------------------|--------------------|--------------------|
| Pooled Funds | | |
| Domestic Public Equities | | |
| Eagle Global Advisors | \$ 14,425,061 | \$ 17,423,771 |
| Lateef Investment Management | 16,600,075 | 17,538,940 |
| Total domestic public equities | 31,025,136 | 34,962,711 |
| Global Public Equities | | |
| Aberdeen Asset Management, Inc. | - | 28,760,456 |
| Baring Asset Management | 26,723,993 | 25,095,537 |
| Lone Cascade | 4,837,821 | 4,321,593 |
| Oakmark Global Fund | 19,846,510 | 19,884,180 |
| Pimco | 27,044,618 | |
| RS Investments | 5,576,563 | 8,891,931 |
| Virtus Investment Partners | 30,269,073 | 29,154,146 |
| William Blair Global Leaders | 21,721,968 | 20,884,837 |
| Total global public equities | 136,020,546 | 136,992,680 |
| International Public Equities | | |
| Virtus Investment Partners | 10,257,373 | 10,711,879 |
| Total international public equities | 10,257,373 | 10,711,879 |
| Domestic Public Fixed Income | | |
| Commonfund - High Quality Bond Fund | 2,490,323 | 2,523,976 |
| Total domestic public fixed income | 2,490,323 | 2,523,976 |
| Global Public Fixed Income | | |
| Beach Point Capital Management | 10,872,336 | 10,561,336 |
| Franklin Templeton Investments | 15,934,870 | 17,637,166 |
| Total global public fixed income | 26,807,206 | 28,198,502 |
| Hedge Funds | | |
| Beach Point Capital Management | 12,081,011 | 12,211,098 |
| Canyon Capital Advisors | 26,562,907 | 26,221,022 |
| Evanston Capital | 24,073,488 | 22,879,496 |
| GoldenTree Asset Management | 29,656,645 | 27,299,286 |
| JHL Capital Group | 9,939,542 | - |
| Marble Arch Offshore Partners | 11,668,542 | - |
| Sandler Capital | 11,178,248 | 10,321,093 |
| Standard Pacific | - | 11,533,414 |
| Starboard Value LP | 7,355,842 | 6,295,391 |
| Strategic Value Partners | 11,417,721 | 11,461,658 |
| Total hedge funds | 143,933,946 | 128,222,458 |
| Private Investments | | |
| Commonfund (15 funds) - Various | 16,928,550 | 20,955,954 |
| Goldman Sachs (4 funds) - Various | 19,460,096 | 25,546,588 |
| Hamilton Lane Advisors (2 funds) - Equities | 13,077,460 | 16,390,061 |
| Metropolitan - Real Estate | 2,642,112 | 3,748,553 |
| Penn Square Capital Group (2 funds) - Real Estate | 7,908,717 | 11,831,063 |
| Pomona Capital - Equities | 1,917,794 | 2,608,092 |
| Timbervest (2 funds) - Natural Resources | 11,587,626 | 11,935,542 |
| United Educators | - | 91,223 |
| Westport Capital Partners - Real Estate | 4,992,956 | - |
| Total private investments | 78,515,311 | 93,107,076 |
| Total pooled funds | 429,049,841 | 434,719,282 |

(Continued)

Miami University Foundation

Schedule of Investments (Continued)

June 30, 2015

(With Comparative Totals for June 30, 2014)

| Description | 2015 Fair Value | 2014 Fair Value |
|-----------------------------------------------------------|---------------------------|---------------------------|
| Separately Invested Funds | | |
| Domestic Public Equities | | |
| Student managed investment portfolio | \$ 97,190 | \$ 91,895 |
| Stock gift pending sale - Berkshire Hathaway | 419 | - |
| Total domestic public equities | 97,609 | 91,895 |
| Limited Partnerships and Non-Public Equities | | |
| Longford Limited Partnership | 13,899 | 13,899 |
| Longview Energy Company | 1,000 | 210,360 |
| Nuclea Biotechnologies | 747,500 | 337,380 |
| Student Venture Funds | 31,650 | 6,650 |
| Total limited partnerships and non-public equities | 794,049 | 568,289 |
| Total separately invested funds | 891,658 | 660,184 |
| Split-Interest Funds | | |
| BMO Harris Bank | | |
| Domestic public equities | - | 2,092,352 |
| International public equities | - | 239,834 |
| Domestic public fixed income | - | 707,448 |
| Total BMO Harris Bank | - | 3,039,634 |
| PNC Bank | | |
| Domestic public equities | 6,827,161 | 4,683,605 |
| International public equities | 1,385,065 | 857,196 |
| Domestic public fixed income | 5,770,183 | 5,202,540 |
| Total PNC Bank | 13,982,409 | 10,743,341 |
| Total split-interest funds | 13,982,409 | 13,782,975 |
| Grand total | \$ 443,923,908 | \$ 449,162,441 |



**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, 2015, 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 12, 2015.

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 12, 2015

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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
DECEMBER 24, 2015**