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Miami University Foundation

Financial Report
June 30, 2016



Dave Yost • Auditor of State

Board of Directors
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 RSM US LLP, for the audit period July 1, 2015 through June 30, 2016. 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 8, 2016

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RSM US LLP

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 6, 2016, 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.

RSM US LLP

Cleveland, Ohio
October 6, 2016

Miami University Foundation

Statement of Financial Position

June 30, 2016

(With Comparative Totals for June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	\$ 37,336,599	\$ 35,553,522
Pledges receivable, net	34,481,131	39,749,868
Other receivables, primarily investment related	3,110,720	481,303
Investments	422,900,816	443,923,908
Cash value of life insurance	1,990,557	1,958,834
Real estate investments	262,875	262,875
Total assets	\$ 500,082,698	\$ 521,930,310
Liabilities		
Accounts payable and other liabilities	\$ 12,752,222	\$ 16,201,846
Assets held for other entities	178,626,212	177,268,370
Deferred revenue	1,898,348	1,982,513
Obligations under split-interest agreements	4,564,301	4,330,754
Total liabilities	197,841,083	199,783,483
Net Assets		
Unrestricted	(629,836)	716,307
Temporarily restricted	105,835,972	133,829,531
Permanently restricted	197,035,479	187,600,989
Total net assets	302,241,615	322,146,827
Total liabilities and net assets	\$ 500,082,698	\$ 521,930,310

See notes to financial statements.

Miami University Foundation

Statement of Activities

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues and other additions:					
Contributions	\$ 1,242	\$ 3,169,545	\$ 8,839,100	\$ 12,009,887	\$ 29,480,303
Investment income:					
Dividend and interest income, net	3,859	1,761,828	-	1,765,687	2,435,996
Net realized and unrealized (losses) gains	(1,295,247)	(11,417,285)	-	(12,712,532)	2,069,048
Net investment income	(1,291,388)	(9,655,457)	-	(10,946,845)	4,505,044
Change in value of split-interest agreements	-	(655,217)	-	(655,217)	22,467
Net assets released from restrictions due to satisfaction of donor restrictions	20,257,040	(20,852,430)	595,390	-	-
Total revenues and other additions	18,966,894	(27,993,559)	9,434,490	407,825	34,007,814
Expenses and other deductions:					
Distributions to Miami University (Note 6)	18,401,214	-	-	18,401,214	25,407,833
Other expenses	2,200	-	-	2,200	272,485
Administrative expenses (Note 6)	1,909,623	-	-	1,909,623	2,635,222
Total expenses and other deductions	20,313,037	-	-	20,313,037	28,315,540
Change in net assets	(1,346,143)	(27,993,559)	9,434,490	(19,905,212)	5,692,274
Net assets - beginning of year	716,307	133,829,531	187,600,989	322,146,827	316,454,563
Net assets - end of year	\$ (629,836)	\$ 105,835,972	\$ 197,035,479	\$ 302,241,615	\$ 322,146,827

See notes to financial statements.

Miami University Foundation

Statement of Cash Flows

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Payments to Miami University, net	\$ (23,721,909)	\$ (27,938,901)
Cash flows from investing activities:		
Proceeds from sale of investments	41,362,161	80,764,518
Purchase of investments	(43,722,013)	(72,260,390)
Proceeds from sale of real estate	-	4,400,000
Assets held for other entities	9,574,939	(6,637,459)
Net cash provided by investing activities	7,215,087	6,266,669
Cash flows from financing activities:		
Contributions restricted for long-term investment	16,877,432	23,851,840
Interest and dividends, restricted	1,720,337	2,419,158
Interest utilized for payment of split-interest obligations	486,780	460,952
Payments on split-interest obligations	(794,650)	(866,752)
Net cash provided by financing activities	18,289,899	25,865,198
Net increase in cash and cash equivalents	1,783,077	4,192,966
Cash and cash equivalents:		
Beginning	35,553,522	31,360,556
Ending	\$ 37,336,599	\$ 35,553,522
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ (19,905,212)	\$ 5,692,274
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Decrease) increase in accounts payable and other liabilities	(3,408,872)	376,639
Contributions restricted for long-term investment	(12,009,887)	(29,480,303)
Net change in value of split-interest agreements	655,217	(22,467)
Interest and dividends	(1,765,687)	(2,435,996)
Net realized and unrealized losses (gains) on investments	12,712,532	(2,069,048)
Net cash used in operating activities	\$ (23,721,909)	\$ (27,938,901)

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 which generally require, by donor restriction, that the corpus be invested in perpetuity. The donor's generally permit the use of a portion of the income earned to be utilized for specific purposes based on their restrictions.

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

Cash and cash equivalents: Cash and cash equivalents consists primarily of cash in banks, money market accounts, and the State Treasury Asset Reserve of Ohio (STAR Ohio and STAR Plus) that include short-term, highly liquid investments readily convertible to cash, with an original maturity of three months or less. The 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.

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, 2013. As of June 30, 2016, the Foundation has no uncertain tax positions.

Recent accounting pronouncements: In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The objective of this statement is to improve the current net asset classification requirements and information presented in financial statements and notes about an entity's liquidity, financial performance and cash flows. The statement is effective for fiscal years beginning after December 15, 2017. Management has not yet determined the impact this statement will have on its financial statements.

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 6, 2016, the date the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

Note 3. Pledges Receivable

At June 30, 2016, contributors to the Foundation have made unconditional pledges totaling \$37,655,085 with 16 pledges accounting for over 50% of that total. Net pledges receivable have been discounted using interest rates to a net present value of \$35,731,380, at June 30, 2016. 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 \$1,250,249 at June 30, 2016. At June 30, 2016, net pledges are due as follows:

Unconditional pledges expected to be collected:	
Within one year	\$ 11,163,781
Between two and five years	20,137,453
In more than five years	6,353,851
Pledges receivable	37,655,085
Less discount on pledges	(1,923,705)
Less allowance for uncollectible pledges	(1,250,249)
Pledges receivable, net	\$ 34,481,131

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, 2016 were:

<u>Investment Description</u>	<u>Fair Value</u>
Domestic public equities	\$ 32,018,120
Global public equities	124,759,055
International public equities	14,814,906
Domestic debt	2,549,299
Global debt	30,302,732
Hedge funds	139,358,683
Limited partnerships and non-public equities	65,777,732
Split-Interest Funds:	
Charitable remainder trusts	9,848,772
Charitable gift annuities	2,925,190
Pooled income funds	546,327
Total	\$ 422,900,816

Miami University Foundation

Notes to the Financial Statements

Note 4. Investments (Continued)

The Pooled Fund portfolio's fair value was \$409,438,254 at June 30, 2016. 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, 2016, the Foundation has made commitments to limited partnerships of approximately \$35.9 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 respected partnerships.

The 2016 dividend and interest income of \$1,765,687, as reported in the statement of activities, is net of fees from external investment managers totaling \$254,945.

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, 2015	\$ 173,632,944	\$ 3,473,224	\$ 162,202	\$ 177,268,370
New investments	18,899,797	68,930	-	18,968,727
Earnings distribution	(8,609,392)	-	-	(8,609,392)
Dividend and interest income	1,193,566	22,870	1,063	1,217,499
Net unrealized and realized (losses)	(9,849,373)	(188,243)	(8,806)	(10,046,422)
Value as of June 30, 2016	175,267,542	3,376,781	154,459	178,798,782
Distribution payable (included in accounts payable and other liabilities)	-	(164,905)	(7,665)	(172,570)
Assets held for other entities at June 30, 2016	\$ 175,267,542	\$ 3,211,876	\$ 146,794	\$ 178,626,212

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, 2016:

	Level 1	Level 2	Level 3	Total
Investment assets:				
Domestic public equities	\$ 17,591,481	\$ 14,426,639	\$ -	\$ 32,018,120
Global public equities	95,217,946	4,353,556	-	99,571,502
International public equities	14,814,906	-	-	14,814,906
Global public debt	19,113,287	-	-	19,113,287
Limited partnerships and non-public equities	-	-	13,979,863	13,979,863
Split-interest funds:				
Charitable remainder trusts	9,848,772	-	-	9,848,772
Charitable gift annuities	2,925,190	-	-	2,925,190
Pooled income funds	546,327	-	-	546,327
	<u>\$ 160,057,909</u>	<u>\$ 18,780,195</u>	<u>\$ 13,979,863</u>	<u>\$ 192,817,967</u>
Funds reported at fair value based on net asset value: ^(a)				
Non-publicly traded funds				\$ 38,926,297
Hedge funds				139,358,683
Limited partnerships				51,797,869
Total investment assets				<u>\$ 422,900,816</u>
Investment Liabilities:				
Split-interest funds:				
Charitable remainder trusts	\$ -	\$ -	\$ 1,968,548	\$ 1,968,548
Charitable gift annuities	-	-	2,594,382	2,594,382
Pooled income funds	-	-	1,371	1,371
Total investment liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,564,301</u>	<u>\$ 4,564,301</u>

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

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, 2016:

	Limited Partnerships and Non-Public Equities	Split-Interest Funds
Balances as of July 1, 2015	\$ 20,254,145	\$ (4,330,754)
Purchases of investments	163,120	-
Proceeds from sale of investments	(4,925,168)	-
Net realized and unrealized losses	(1,512,234)	(233,547)
Balances as of June 30, 2016	\$ 13,979,863	\$ (4,564,301)

The total Level 3 changes in net unrealized losses for the year relating to those investments and split-interest funds still held at June 30, 2016 was (\$3,884,315), and is reflected as part of net realized and unrealized (losses) gains in the statement of activities.

The following table sets forth the significant terms of the agreements with investment funds reported at fair value based on net asset value at June 30, 2016:

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Non-publicly traded equity funds ^(a)	\$ 25,187,552	\$ -	monthly	10 days
Non-publicly traded debt funds ^(b)	13,738,745	-	weekly, monthly	5 - 90 days
Hedged equity funds ^(c)	70,123,446	-	various	30 - 60 days
Hedged debt funds ^(d)	69,235,237	-	quarterly	45 - 95 days
Limited partnership ^(e)				
Private equity	12,170,508	3,023,244	illiquid	not applicable
Private debt	2,151,515	9,296,196	illiquid	not applicable
Private real estate	37,475,846	18,393,000	illiquid	not applicable
Total	\$ 230,082,849	\$ 30,712,440		

^(a) This class includes investment vehicles that are not publicly traded mutual funds, however, invest primarily in long-only investments in publicly traded equity securities on a global basis. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

^(b) This class includes investment vehicles that are not publicly traded mutual funds, however, invest primarily in long-only investments in publicly traded bonds and other debt securities on a global basis. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

^(c) This class includes primarily investments in hedge funds that invest in both long and short positions in publicly traded equity securities on a global basis. The redemption frequency for these funds range from monthly 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 \$10.1 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 second year of this redemption restriction. One investment, valued at \$9.5 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 second year of this redemption restriction.

Miami University Foundation

Notes to the Financial Statements

Note 5. Fair Value Measurements (Continued)

- (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.
- (e) This class includes primarily investments in limited partnerships. These funds are illiquid that, in general, do not offer access to redemptions during the life of the partnership. Capital is periodically called, invested, and then returned over time. Typically these partnerships have a life exceeding ten years and may take up to twenty years before they have fully returned called capital.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. 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 1,695 separate accounts established since its inception. The following presents a summary of changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ 716,307	\$ 74,746,999	\$ 187,585,090	\$ 263,048,396
Contributions	1,242	633,958	8,839,100	9,474,300
Dividend and interest income, net of investment expense	3,859	1,738,370	-	1,742,229
Realized and unrealized (losses) gains	(1,295,247)	(10,744,073)	-	(12,039,320)
Net assets released from restrictions and other changes	11,541,051	(11,918,062)	595,390	218,379
Distributions to Miami University	(9,685,329)	-	-	(9,685,329)
Other expenses	(2,200)	-	-	(2,200)
Administrative expenses	(1,909,623)	-	-	(1,909,623)
Endowment net assets, June 30, 2016	\$ (629,940)	\$ 54,457,192	\$ 197,019,580	\$ 250,846,832

Miami University Foundation

Notes to the Financial Statements

Note 6. Endowment (Continued)

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 669,084	\$ -	\$ -	\$ 669,084
Donor restricted endowment	(1,299,024)	54,457,192	197,019,580	250,177,748
	<u>\$ (629,940)</u>	<u>\$ 54,457,192</u>	<u>\$ 197,019,580</u>	<u>\$ 250,846,832</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 \$1,299,024 as of June 30, 2016. 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 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 2016 was \$21,332,056 which includes \$8,781,962 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, \$9,354,333 was distributed to Miami University from Foundation endowments. In addition to current year endowment distributions, \$9,046,881 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>	Spending Rate and Special Distribution	Donor Stipulated Distribution	Total Distributions to Miami University
Scholarships and fellowships	\$ 4,427,343	\$ 38,135	\$ 4,465,478
Academic support	3,686,294	222,067	3,908,361
Student services/athletics	352,508	-	352,508
Campus improvements	33,350	6,809,890	6,843,240
Other institutional support	854,838	2,176,789	3,031,627
Total distributions to Miami University	<u>\$ 9,354,333</u>	<u>\$ 9,046,881</u>	<u>\$ 18,401,214</u>

Miami University Foundation

Notes to the Financial Statements

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 31st value of the Foundation investment pool. The administrative fee is funded from current and accumulated earnings from all funds holding shares in the Foundation investment pool, including the assets held for other entities; funds with insufficient accumulated earnings are not charged thereby reducing the maximum administrative fee payable. A total of \$1,909,623 was reimbursed to Miami University in 2016 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, 2016:

<u>Miami University Program Supported</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Scholarships and fellowships	\$ (609,210)	\$ 17,647,596	\$ 99,625,789	\$ 116,664,175
Academic support	(639,775)	24,321,379	75,231,473	98,913,077
Student services/athletics	(30,726)	959,385	7,817,627	8,746,286
Campus improvements	-	6,390,167	582,590	6,972,757
Other and undesignated	649,875	56,517,445	13,778,000	70,945,320
Total net assets	\$ (629,836)	\$ 105,835,972	\$ 197,035,479	\$ 302,241,615

Supplementary Information

Miami University Foundation

Schedule of Changes in Net Assets
Year Ended June 30, 2016

	Balance July 1, 2015	Contributions	Endowment Income	Market Adjustment, Net	Transfers To Miami	Intrafund Transfers	Other	Balance June 30, 2016
Pooled endowment funds	\$ 262,773,340	\$ 9,474,300	\$ 1,738,522	\$ (13,951,627)	\$ (9,682,319)	\$ 218,379	\$ (2,200)	\$ 250,568,395
Non-pooled endowment funds	275,058	-	3,707	2,684	(3,010)	-	-	278,437
Total endowment funds	263,048,398	9,474,300	1,742,229	(13,948,943)	(9,685,329)	218,379	(2,200)	250,846,832
Expendable funds - donor restricted for capital projects	8,171,219	6,127,059	19,813	5,318	(6,509,880)	40,704	-	5,754,023
Expendable and board discretionary funds-non capital	1,948,608	1,577,569	3,845	2,440	(2,094,995)	199,647	-	1,637,173
Accumulated cash value insurance	1,958,834	15,003	-	69,823	-	(53,103)	-	1,990,557
Other investment funds	835,047	-	-	(750,793)	(11,000)	(857)	-	72,397
Not split-interest funds	8,218,981	84,894	-	-	-	(404,770)	(650,369)	7,248,536
Pledges receivable	39,749,889	(5,268,737)	-	-	-	-	-	34,481,131
Interest in trusts held by others	215,814	-	-	-	-	-	(4,848)	210,966
Total net assets	\$ 322,146,827	\$ 12,009,887	\$ 1,765,887	\$ (14,622,155)	\$ (18,401,214)	\$ -	\$ (657,417)	\$ 302,241,815

Detail of Market Adjustment, Net

Net Unrealized and Realized Gains	Administrative Expense	Market Adjustment, Net
\$ (12,712,532)	\$ (1,909,623)	\$ (14,622,155)

Miami University Foundation

Schedule of Investments

June 30, 2016

(With Comparative Totals for June 30, 2015)

<u>Description</u>	2016 Fair Value	2015 Fair Value
Pooled Funds		
Domestic Public Equities		
Eagle Global Advisors	\$ 14,426,639	\$ 14,425,061
Lateef Investment Management	17,491,607	16,600,075
Total domestic public equities	31,918,246	31,025,136
Global Public Equities		
Baring Asset Management	25,187,552	26,723,993
Lone Pine Capital	4,353,556	4,837,821
Oakmark Funds	16,747,698	19,846,510
Pimco	25,564,796	27,044,618
Victory RS Investments	4,976,425	5,576,563
Virtus Investment Partners	27,044,910	30,269,073
William Blair Global Leaders	20,884,118	21,721,968
Total global public equities	124,759,055	136,020,546
International Public Equities		
Virtus Investment Partners	14,814,906	10,257,373
Total international public equities	14,814,906	10,257,373
Domestic Public Debt		
Commonfund	2,549,299	2,490,323
Total domestic public debt	2,549,299	2,490,323
Global Public Debt		
Beach Point Capital Management	11,189,445	10,872,336
Franklin Templeton Investments	19,113,287	15,934,870
Total global public debt	30,302,732	26,807,206
Hedge Funds		
Beach Point Capital Management	12,019,187	12,081,011
Canyon Capital Advisors	21,381,566	26,562,907
Evanston Capital	22,439,021	24,073,488
Fir Tree Partners	9,526,715	-
GoldenTree Asset Management	24,727,284	29,656,645
JHL Capital Group	9,486,836	9,939,542
Marble Arch Investments	10,118,675	11,668,542
Sandler Capital	11,498,837	11,178,248
Starboard Value	7,053,362	7,355,842
Strategic Value Partners	11,107,200	11,417,721
Total hedge funds	139,358,683	143,933,946
Private Investments		
Commonfund (15 funds) - Various	13,620,861	16,928,550
Falcon Investment Advisors - Debt	69,151	-
GEM Realty Securities - Real Estate	1,987,436	-
Goldman Sachs (4 funds) - Various	13,937,464	19,460,096
Hamilton Lane Advisors (2 funds) - Equities	9,541,363	13,077,460
Metropolitan - Real Estate	2,070,541	2,642,112
Penn Square Capital Group (2 funds) - Real Estate	5,962,917	7,908,717
Pomona Capital - Equities	1,578,227	1,917,794
Timbervest (2 funds) - Natural Resources	11,083,308	11,587,626
Westport Capital Partners - Real Estate	5,884,065	4,992,956
Total private investments	65,735,333	78,515,311
Total pooled funds	409,438,254	429,049,841

(Continued)

Miami University Foundation

Schedule of Investments (Continued)

June 30, 2016

(With Comparative Totals for June 30, 2015)

<u>Description</u>	2016 Fair Value	2015 Fair Value
Separately Invested Funds		
Domestic Public Equities		
Student managed investment portfolio	\$ 99,874	\$ 97,190
Stock gift pending sale - Berkshire Hathaway	-	419
Total domestic public equities	99,874	97,609
Limited Partnerships and Non-Public Equities		
Longford Limited Partnership	13,899	13,899
Longview Energy Company	1,000	1,000
Nuclea Biotكنولوجies	-	747,500
Student Venture Funds	27,500	31,650
Total limited partnerships and non-public equities	42,399	794,049
Total separately invested funds	142,273	891,658
Split-Interest Funds		
PNC Bank		
Domestic public equities	6,443,665	6,827,161
International public equities	1,214,793	1,385,065
Domestic public debt	5,661,831	5,770,183
Total split-interest funds	13,320,289	13,982,409
 Grand total	 \$ 422,900,816	 \$ 443,923,908

**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.

RSM US LLP

Cleveland, Ohio
October 6, 2016



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 20, 2016**