

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

RETIREE HEALTH AND LIFE INSURANCE PLANS



B A L L S T A T E

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MUNCIE, INDIANA

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To

The President and Board of Trustees

Ball State University

This financial report presents

the financial position of the

Ball State University

Retiree Health & Life Insurance Plans

at June 30, 2011,

and the results of activities for

the year then ended.

Randall B. Howard
Vice President for Business Affairs
and Treasurer

March 19, 2013

Ball State University

2010-2011

Frank A. Bracken, Indianapolis, IN

Thomas L. DeWeese, Muncie, IN
(completed term December 31, 2010)

R. Wayne Estopinal, Jeffersonville, IN
(appointed January 1, 2011)

Marianne Glick, Indianapolis, IN

Frank Hancock, Indianapolis, IN

Richard Hall, Carmel, IN

Hollis E. Hughes Jr., South Bend, IN

Matthew Momper, Fort Wayne, IN

Barbara Phillips, Carmel, IN

Michael T. Miller, Elkhart IN
(appointed July 1, 2011)

Nicole M. Vauter, Hebron, IN
(completed term June 30, 2011)

Officers

Thomas L. DeWeese..... (completed term December 31, 2010) President
Hollis E. Hughes Jr.....(elected December 17, 2010) President
Frank A. Bracken Vice President
Hollis E. Hughes Jr.....(completed term December 31, 2010) Secretary
Richard Hall..... (elected December 17, 2010) Secretary
Richard Hall(completed term December 31, 2010) Assistant Secretary
Barbara Phillips.....(elected December 17, 2010) Assistant Secretary
Randall B. HowardTreasurer

University President
Paul W. Ferguson

Jo Ann M. Gora
(retired June 30, 2014)

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Independent Auditor's Report

The Board of Trustees of
Ball State University
Muncie, Indiana

We have audited the accompanying statements of plan net assets of the Retiree Health and Life Insurance Plans of Ball State University (the Plans) as of June 30, 2011 and June 30, 2010, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2011 and June 30, 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2013, on our consideration of the Plans' internal control over financial reporting and on our test 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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Management's discussion and analysis and the schedules of funding progress and contributions from University and Other Entities are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Indianapolis, Indiana
March 19, 2013

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Ball State University
Retiree Health and Life Insurance Plans
Management's Discussion and Analysis
June 30, 2011 and 2010

Introduction and Overview

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education located in Muncie, Indiana. As of the beginning of the 2010-2011 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,850 full-time and 520 part-time personnel, whereas in 2009-2010 there were 2,872 full-time and 420 part-time personnel and 2,839 full-time and 475 part-time in 2008-2009.

Full-time regular employees of the University are eligible to receive a variety of employee benefits, including vacation, sick leave, short and long term disability insurance, health, life, and accidental death and dismemberment insurance, pension benefits, and fee waivers for employees, spouses and dependants. For the 2011 fiscal year, the University recorded benefits of \$69.7 million, plus an \$18.3 million estimated value for vacation and sick leave benefits whose usage would be included in payroll, for a total of \$88.0 million. The \$69.7 million includes \$27.9 million in health insurance for active employees which includes \$2.0 million contributed to the Voluntary Employees Beneficiary Association (VEBA) Trust established to help fund their future retiree health benefits, as well as \$19.3 million in pension contributions, \$10.7 million of employer matching payments to Social Security and Medicare, and \$7.6 million in health insurance for current retirees. The University pays 100.0 percent of the required contributions to pension plans. Beginning July 1, 2010, the University began paying different percentages of the health care premiums for each of the various health care plan options for employees and early retirees. In 2010-2011, the University's share of the health care premiums ranged between 70.0 and 90.0 percent dependent on the plan. In addition, employees are provided the opportunity to set aside additional amounts for retirement through deductions from their paychecks before taxes. These amounts are then deposited into the 403(b) and/or 457(b) voluntary retirement plans that the University has established for this purpose.

In addition to providing pension benefits to all regular full-time employees, the University, like many other public and private employers, also provides health and life insurance benefits to employees who retire from the University after accruing the required years of service (15 years at age 62; 15 years at age 50 for those hired before July 1, 2009; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2011, 979 retired employees (975 as of June 30, 2010, and 936 as of June 30, 2009) were covered by retiree life insurance, while 1,621 retired employees, spouses and surviving spouses (1,682 as of June 30, 2010, and 1,679 as of 2009) were covered by retiree health insurance. In addition, 904 active employees (860 in 2010 and 896 in 2009) had fulfilled the age and service requirements for these benefits as of that date. These retiree benefits have been part of the University's benefit programs since 1949 (life insurance) and 1952 (health insurance). As this report will show, the overall financial strength of these programs is excellent and is a strong indicator of continued coverage for the foreseeable future. This is due in large part to the establishment of the Life Insurance Continuance Fund (LICF) and the VEBA Trust to help fund future retiree benefits.

The VEBA Trust, the larger of the two funds, was established to partially finance the cost of retiree health care. In equilibrium, when the VEBA Trust balance equals the actuarial liability for retiree health care, it would cover 75.0 percent of the total cost of retiree health care, with the remaining 25.0 percent of the cost to be shared by the University and the retiree. Of course the percentage of the liability funded is subject to significant volatility in both the numerator (value of the investments) and the denominator (actuarial liability). While the University will continue to recognize the annual cost of prefunding their share of the retiree health care benefit over the course of their employees' careers, the earnings from the VEBA Trust help to offset a portion of this cost for both the employees and the University. Since the liability, as calculated under Governmental Accounting Standards Board (GASB) Statement No. 43 rules, is funded 86.2 percent as of the most recent valuation date of July 1, 2011, the VEBA Trust is already beginning to defray a portion of the health care premiums for retirees and employees, as well as the University. In other words, because of this funding level, total premiums are lower than they would be otherwise.

Management's Discussion and Analysis

Ball State University is not unusual in offering retiree health benefits. A December 2008, paper from the TIAA-CREF Institute, entitled "Trends in Health Care Spending and Health Insurance" revealed that about 80.0 percent of colleges and universities offered some form of continued health care coverage as a retiree benefit. And while private sector employers in general are less generous, an Employee Benefit Research Institute (EBRI) article dated October 28, 2010, estimated that 34.2 percent of employers with 1,000 or more employees offer health benefits to early retirees, while an EBRI article dated January 2010 stated that 26.0 percent of retirees aged 65-69, i.e. fairly recent Medicare covered retirees, had private-sector employer health coverage as well.

Employer-provided retiree health insurance is a significant benefit for retirees. While the federal government provides the major health coverage for retirees age 65 and above, there are still significant out-of-pocket costs not paid by Medicare, such as deductibles, co-pays, dental expenses, and prescription drugs (even with the addition of Medicare Part D drug coverage). In December 2010, EBRI stated in an article that a retired couple will need, depending upon their health status, between \$158,000 and \$400,000 over and above that deemed necessary for maintenance of a current standard of living. These amounts, depending upon the assumptions used, are not surprising considering the number of health issues typically encountered by senior citizens. This is important to consider because the broad social implications of having an increasing population demographic unprepared to finance these obligations must be addressed by leadership in all sectors.

For the years ended June 30, 2011, 2010, and 2009, the cost to Ball State University of health care for all current retirees, spouses, and surviving spouses were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Insurance Claims	\$ 9,730,863	\$ 10,130,809	\$ 9,539,088
Administration	268,849	210,688	183,556
Total	<u>\$ 9,999,712</u>	<u>\$ 10,341,497</u>	<u>\$ 9,722,644</u>
Less:			
Retiree Premiums	<u>\$ 2,368,910</u>	<u>\$ 2,159,410</u>	<u>\$ 2,263,383</u>
Amount included in Benefits Expense	7,630,802	8,182,087	7,459,261
Less:			
Medicare Retiree Drug Subsidy	<u>1,130,869</u>	<u>1,279,787</u>	<u>1,000,928</u>
Net Cost of Benefit to University	<u><u>\$ 6,499,933</u></u>	<u><u>\$ 6,902,300</u></u>	<u><u>\$ 6,458,333</u></u>

While there are other ways to calculate the cost, including the Annual Required Contribution (ARC) calculated by the actuaries and discussed later in this document, these are the actual costs recorded in the financial records of the University.

For this period, retiree health care as calculated above amounted to 7.4 percent of total estimated benefits (7.5 in 2010, 7.5 in 2009), while pension contributions made by the University amounted to 21.9 percent (20.2 percent in 2010, 21.7 percent in 2009), and the employer portion of Social Security and Medicare amounted to 12.1 percent (13.6 percent in 2010, 14.5 percent in 2009). Taken together, 41.4 percent (41.4 percent in 2010, 43.7 percent in 2009) of total estimated benefits were for retirement purposes. Retiree life insurance, since it is totally paid from the LICF, was not reflected in the University's benefit expense.

Funding Strategy

In fiscal year 1979-1980, the Ball State University Board of Trustees established the LICF for the purpose of funding retiree life insurance benefits through contributions and investment returns. In 1985, a reserve for retiree health care was established, and in 1988, the balance was transferred to the VEBA Trust established for the purpose of funding future retiree health care. In fiscal year 1992, the first liability projection by consulting actuaries from Mercer was completed. In fiscal year 1996, following an extensive study by Hewitt Investment Group, a leading consultant providing investment advice for clients with predominantly pension assets totaling over \$31.0 billion, the Board of Trustees approved a policy for the investment of the LICF and the VEBA Trust. Following this action, Hewitt Investment Group was appointed as the investment consultant for these plans, meeting with the University at least quarterly to review investment results, evaluate and replace managers when necessary, and recommend further refinements to the policy.

During this time, contributions were made to the VEBA Trust from the University's self-insured health care plan, other benefits accounts, and, on occasion, the LICF. In 2004, the Governmental Accounting Standards Board issued Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which took effect for Ball State University during fiscal year 2006-2007, and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which took effect for Ball State University during fiscal year 2007-2008. The University's funding methodology is based on the calculation of the annual cost, or the ARC, as defined in these statements. In addition, funds available over and above the calculated contribution required have at times been contributed to the VEBA Trust in order to bring the funding status closer to the calculated actuarial liability. As of June 30, 2011, the 2.0 million contributed to the VEBA Trust during the year brought the total University contributions from date of inception to \$66.4 million, while the \$26.6 million investment gain for the year brings the net dividends, interest and realized and unrealized investment gains and losses from inception to date to \$84.7 million. In addition, to date transfers from LICF of \$9.4 million and withdrawals of \$4.0 million for claims were unchanged from the previous year.

The most recent actuarial projection of the retiree health care liability dated July 1, 2011, when compared to the VEBA Trust established to fund this liability, revealed that the liability is now 86.2 percent funded under GASB rules. This is higher than the 59.4 percent funding level from 2009, the date of the previous projection, and reflects the higher balance in the VEBA Trust due to investment gains. The previous projection occurred during a two year interval that produced adverse investment results (the investment results will be discussed in greater detail later in this report). As a result, the ARC, as calculated by the actuaries, is lower than the health insurance claims paid by the University. The Medicare Retiree Drug Subsidy together with the gains shown in the VEBA Trust enabled the University to extend its record of fully-funding the ARC each year. Because of this, premiums to be paid by Ball State University employees and retirees did not have to be increased more than expected for the fiscal year beginning July 1, 2011. In other words, the well-funded VEBA Trust is resulting in lower premiums than would have been expected for active employees, retirees and spouses, and the University.

The next actuarial projection of the retiree health care and life insurance liability will be as of July 1, 2013. Given the stronger performance of the financial markets, it is anticipated that a greater percentage of the liability will be funded at that time.

Unlike pension funds, other employee welfare benefits, like retiree health and life insurance, do not have vesting provisions. However, the consistent actions of the Board of Trustees, including the establishment of the VEBA Trust that cannot be used for any purpose other than benefits for employees and retirees, and the high level of funding is the best assurance that these benefits are secure for the future.

Using this Report

This financial report includes two basic financial statements: the Statements of Net Assets and the Statements of Changes in Net Assets, prepared in accordance with the aforementioned GASB Statement No. 43. These financial statements focus on the financial condition of the Retiree Health and Life Insurance Plans and the results of operations, without consideration of the actuarial liabilities that the Plans are intended to fund. Information on the actuarial liabilities is revealed in Note F of the Notes to Financial Statements, as well as in the Required Supplemental Information following the Notes, where the asset balances are compared to the liabilities and the actual contributions are compared to the Annual Required Contributions.

The financial report also includes management's discussion and analysis and the report of the independent auditors, in addition to the financial statements, notes to financial statements, and required supplemental information.

Financial Highlights

Following two successive years of decline in the financial position of the Retiree Health and Life Insurance Plans, resulting from investment losses of 21.8 percent in fiscal year 2009 and eight percent in fiscal year 2008, the markets finally turned around in the latter part of March 2009. This turnaround continued into fiscal year 2010, resulting in a gain of 11.2 percent and another 21.1 percent gain for fiscal year 2011 for the total portfolio. When compared to a "blended benchmark" reflecting the diversity of the portfolio and consisting of the Russell 1000 Value Index, the S&P 500 Index, the MSCI AC World Index ex-U.S., the Russell 2000 Value Index, the Russell 2000 Growth Index, the NCREIF Index, the BCGC Intermediate Bond Index, and the BC Aggregate Index, the blended benchmark, which recorded losses of 19.4 percent in

Management's Discussion and Analysis

2009, gains of 12.6 percent in 2010 and 24.1 percent gains in 2011, due primarily to increased strength in the U.S. stock market especially in the information technology sector.

The Retiree Health and Life Insurance portfolios have a long-term focus on achieving a total return that meets or exceeds the expected long-term growth in the retiree health and life insurance obligations. This is combined with modest liquidity requirements. For this reason, modest but limited fluctuations in market value and rates of return are expected in the short term, with larger fluctuations occurring during certain periods, in order to achieve a greater long-term rate of return. When compared to other similar categories of plans, the risk posture of this portfolio is greater than the average defined benefit pension plan, due to the pension plans' greater and more defined liquidity requirements, but less than the average endowment or foundation portfolio, due to the greater flexibility of the endowments and foundations to control their commitments.

When the returns were compared to the "Hewitt Composite Funds Universe," which consists of 100 pension plans, endowments, foundations and other not-for-profit institutional asset pools, with assets totaling \$32.8 billion, the average gain was 0.4 percent lower than the Retiree Health and Life Insurance portfolios. In 2010, the average gain was 2.2 percent higher than the portfolio, and in 2009, the benchmark loss was 5.2 percent less than the portfolio. Defined benefit pension plans represent 72.0 percent of the assets of this universe. When compared to the NACUBO (National Association of College and University Business Officers) Endowment Study for the same time period, the results were reassuring with the portfolio gains of 21.1 percent for 2011 outpacing NACUBO. While the 2010 (11.2 percent) and 2009 (-21.8 percent) were disappointing, the results were still comparable. The NACUBO average for endowments of \$50.0 million to \$100.0 million was a gain of 19.3 percent (11.8 percent gain in 2010, 18.6 percent loss in 2009) and 19.7 percent for endowments of \$100.0 million to \$500.0 million (11.9 percent gain in 2010, 19.7 percent loss in 2009).

While the one-year results were encouraging, it should be noted that the investment policy for the VEBA Trust and the LICF focuses on a five-year horizon, with the expectation that the annualized total return will exceed a customized index made up of the various sector indexes for the various sectors in the asset allocation policy, as well as rank in the top 50.0 percent of a total pension fund universe. Over the past five years, the combined portfolio returned 2.5 percent, versus 3.85 percent for the customized index. During that same time period, endowments of \$50.0 million to \$100.0 million returned 4.4 percent, and endowments of \$100.0 million to \$500.0 million also returned 4.4 percent. Most Sectors showed positive earnings with the exception of small cap equity which showed a small negative return net of fees. For the fiscal year, fixed income had the best performance on actual returns. Large cap core and large cap growth equity outperformed large cap value even though the managers for the two performed worse than the benchmark. All other managers outperformed the benchmarks.

It is helpful for perspective to look back at past years' performance numbers. In fiscal year 2007, which was the last strong market prior to the downturn, the portfolio returned 18.0 percent versus the Hewitt Universe return of 16.9 percent and the custom index return of 17.9 percent. For the five-year period ending with fiscal year 2007, the portfolio returned 12.4 percent versus 11.4 percent for the custom index. Hewitt Investment Group and the University continue to believe that the strategy, which is basically unchanged from 2007, is sound and will result in better results in the near future as the market continues to recover from its severe downturn in fiscal years 2008 and 2009. Strategically, no matter what the market, the intent is to hire good managers who will enable the University to achieve its long term objectives, rather than to "chase" short-term returns or to attempt to time the market.

Actuarial liability valuations are performed every two years, and the latest valuation, as of July 1, 2011, revealed that the total liability for the Retiree Health and Life Insurance Plan is now 87.3 percent funded, versus 61.5 percent funded in 2009. The plan has almost recovered to the 91.2 percent funding level calculated as of July 1, 2007. The recovery in funding is due to the upturn in the investment markets over the past year. The plans remain well-funded for the future.

The Statements of Net Assets and the Statements of Changes in Net Assets

The Statements of Net Assets and the Statements of Changes in Net Assets report in summary fashion the financial position of the individual plans and the total of the two plans, as well as their financial activities, focusing on the net assets of the plans. These statements include all assets, liabilities, contributions, investment income, and expenses, using the accrual basis of accounting.

The following is a summary of the major components of net assets at June 30, 2011, 2010, and 2009.

	Net Assets					
	As of June 30, 2011, 2010, and 2009					
	2011			2010		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Assets:						
Cash and Short Term Investments	\$ 1,764,432	\$ 380,102	\$ 2,144,534	\$ 9,091,799	\$ 1,297,700	\$ 10,389,499
Accounts Receivable	2,845,269	536,204	3,381,473	2,543,670	694,392	3,238,062
Investments	154,539,148	21,061,638	175,600,786	118,456,798	16,929,259	135,386,057
Noncurrent Interest Receivable	-	44,557	44,557	-	24,399	24,399
Total Assets	\$ 159,148,849	\$ 22,022,501	\$ 181,171,350	\$ 130,092,267	\$ 18,945,750	\$ 149,038,017
Liabilities						
	\$ 1,230,694	\$ 56,000	\$ 1,286,694	\$ 752,806	\$ 154,124	\$ 906,930
Net Assets:						
Trust	\$ 157,918,155	\$ 21,966,501	\$ 179,884,656	\$ 129,339,461	\$ 18,791,626	\$ 148,131,087
2009						
	Retiree Health Insurance	Retiree Life Insurance	Totals			
Assets:						
Cash and Short Term Investments	\$ 2,903,508	\$ 325,481	\$ 3,228,989			
Accounts Receivable	3,152,170	429,246	3,581,416			
Investments	111,052,211	16,239,570	127,291,781			
Noncurrent Interest Receivable	-	-	-			
Total Assets	\$ 117,107,889	\$ 16,994,297	\$ 134,102,186			
Liabilities						
	\$ 935,821	\$ 365,028	\$ 1,300,849			
Net Assets:						
Trust	\$ 116,172,068	\$ 16,629,269	\$ 132,801,337			

Cash and Short Term Investments consist of cash and fixed income investments maturing within one year and reported on the investment manager and custodial reports. This was significantly higher in 2010 due to a large contribution in June to the VEBA Trust, large transfers into the fixed income account of the VEBA Trust in 2010, a large contribution in June 2010 to the LICF, and large real estate fund redemptions in May of 2010.

Accounts Receivable consists primarily of accrued interest and dividends and amounts received by Ball State University but not yet transferred to the retiree plans.

Investments include domestic fixed income, domestic large and small capitalization equities, international equities, private closed-end Real Estate Investment Trust (prior to 2011), and municipal bonds. The amounts shown are at fair value.

Liabilities are primarily benefits payable at year end.

Net Assets – Trust represents the balances at year end in the VEBA Trust and the LICF. This balance also reflects activity taking place outside the VEBA Trust and the LICF. For Health Care, it reflects the difference between the receivables from Ball State University and the retiree contributions versus the benefits payable and other liabilities.

Management's Discussion and Analysis

The following is a summary of the contributions, investment income, and deductions resulting in the changes in net assets for the years ended June 30, 2011, 2010, and 2009.

Change in Net Assets-Condensed						
Years Ended June 30, 2011, 2010, and 2009						
	2011			2010		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	\$ 2,368,910	\$ 18,292	\$ 2,387,202	\$ 2,159,410	\$ 18,765	\$ 2,178,175
University Premiums	6,663,685	54,875	6,718,560	6,480,308	55,406	6,535,714
Total Premiums	\$ 9,032,595	\$ 73,167	\$ 9,105,762	\$ 8,639,718	\$ 74,171	\$ 8,713,889
Medicare Retiree Drug Subsidy	1,130,869	-	1,130,869	1,279,787	-	1,279,787
Contributions to VEBA and LICF	2,000,000	252,000	2,252,000	1,500,000	1,291,812	2,791,812
Net Investment Income	26,572,982	3,876,739	30,449,721	12,212,338	1,937,122	14,149,460
Benefits	(9,730,863)	(1,027,031)	(10,757,894)	(10,130,809)	(1,140,748)	(11,271,557)
Other Expenses	(426,889)	-	(426,889)	(333,641)	-	(333,641)
Increase in Net Assets	\$ 28,578,694	\$ 3,174,875	\$ 31,753,569	\$ 13,167,393	\$ 2,162,357	\$ 15,329,750
Net Assets Beginning of Year	129,339,461	18,791,626	148,131,087	116,172,068	16,629,269	132,801,337
Net Assets End of Year	\$ 157,918,155	\$ 21,966,501	\$ 179,884,656	\$ 129,339,461	\$ 18,791,626	\$ 148,131,087
2009						
	Retiree Health Insurance	Retiree Life Insurance	Totals			
Retiree Premiums	\$ 2,263,383	\$ 23,595	\$ 2,286,978			
University Premiums	6,790,396	72,732	6,863,128			
Total Premiums	\$ 9,053,779	\$ 96,327	\$ 9,150,106			
Medicare Retiree Drug Subsidy	1,000,928	-	1,000,928			
Contributions to VEBA and LICF	-	326,000	326,000			
Net Investment Income	(29,747,438)	(5,280,759)	(35,028,197)			
Benefits	(9,539,088)	(968,826)	(10,507,914)			
Other Expenses	(274,297)	-	(274,297)			
Increase in Net Assets	\$ (29,506,116)	\$ (5,827,258)	\$ (35,333,374)			
Net Assets Beginning of Year	145,678,184	22,456,527	168,134,711			
Net Assets End of Year	\$ 116,172,068	\$ 16,629,269	\$ 132,801,337			

Retiree Premiums and University Premiums reflect the 25.0 percent-75.0 percent sharing of total premium per University policy. These premiums are paid into the University's health and life insurance accounts to help cover claims and administrative expenses. The decrease in life insurance premiums beginning in 2010 reflects a reduction in premium rates which took effect that year.

The Medicare Retiree Drug Subsidy is paid each year to the University by Medicare in recognition of the fact that the University's retiree prescription drug benefit available to Medicare retirees is at least actuarially equivalent to the benefit available to them under Medicare Part D. As a result, Ball State University retirees covered by the University's retiree health care plan do not enroll in Medicare Part D. This subsidy recognizes savings incurred by the Medicare program as a result. The amount is utilized to offset a portion of retiree and University shares of the premiums for Medicare eligible retirees.

With regard to the Contributions to the VEBA Trust and the LICF, it is the University's policy to at least fund the total ARC each fiscal year. In years where additional funds might be available, the University may choose to contribute more than the ARC, to mitigate against future increase requirements. The University chose to contribute \$2.0 million to the VEBA Trust (\$1.5 million in 2010 and \$1.0 million in 2009). These contributions were partially used to reduce the receivable from the University in accordance with GASB 45, which took effect in 2008. The University has reported these contributions as a prepaid expense of the University toward the funding of the retiree health care liability. In 2010, \$1.0 million was contributed to the LICF, in addition to the cash payouts selected by early retirees in lieu of retiree life insurance, as described in the next paragraph.

University employees who retire under the University's Early Retirement Program may choose to receive a cash payment in lieu of retiree life insurance. This payment, which amounts to 40.0 percent of the face value of the life insurance policy to which the retiree would be entitled, is paid by the University in two equal installments on January 31 of the calendar year following the calendar year in which retirement takes place and the next succeeding January 31. The University's consulting actuaries have determined that this payment constitutes a contribution to the LICF, a payment of benefits, and

a source of funding for the ARC. For the year ended June 30, 2011, this payment totaled \$252,000; and for the years ended June 30, 2010, and June 30, 2009, the payments totaled \$291,812 and \$326,000 respectively.

Deductions are almost entirely made up of insurance claims, including the University's cash payments to early retirees in lieu of life insurance. Claims are paid out of the University's health care plan in the case of health insurance claims, and out of the LICF in the case of life insurance death claims. In addition, estimated claims incurred but not paid are included in the total deduction.

As of June 30th of each year, actual Investment allocations, including cash and short term investments, were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Domestic Large Capitalization Equities	50.5%	40.9%	44.9%
Domestic Small Capitalization Equities	9.0%	8.5%	10.1%
International Equities	14.8%	13.9%	14.7%
Domestic Fixed Income (including short term)	25.7%	29.3%	20.2%
Private Closed-End Real Estate Investment Trust (REIT)	0.0%	7.4%	10.1%

Domestic Fixed Income is higher than usual in 2011 and 2010 due to contributions to the VEBA Trust and LICF near year end plus the decision to terminate the real estate investment trust (REIT), which involved not reinvesting cash dividends in the REIT, plus REIT redemptions in 2010, all of which were deposited to fixed income. Eventually a portion of this balance will be allocated to a new core real estate fund as well as to new and existing equity managers.

The asset allocation, which was approved by the Board of Trustees, reflects Hewitt Investment Group's research and analysis of Ball State University's requirements for returns and tolerance for risk. Optimization studies, comparisons to average allocations for pension plans, endowments and foundations, as well as prospects for earnings and risk for various asset classes, are considered. At the present time, as mentioned earlier, the asset allocation reflects a slightly higher risk posture than a corporate pension plan and a slightly lower risk posture than an endowment or foundation. This reflects the fact that the University has a fiduciary responsibility to its retirees to provide the promised benefit when needed, even though the benefit cannot be calculated as precisely as a defined benefit pension plan. It also recognizes that the liquidity needs are less critical for the Retiree Health and Life Insurance Plans, due to the availability of other sources of funds within the University if needed. This allocation is reviewed with Hewitt Investment Group on an ongoing basis and modified by the Trustees as needed.

For the fiscal year, as previously noted, the combined portfolio generated an overall gain of 21.1 percent, which put it in the 43rd percentile (86th percentile in 2010, 92nd percentile in 2009) of Hewitt Investment Group's predominantly pension fund universe, and fell short of the custom index calculated gain of 24.1 percent. The portfolios' policy objectives were not met in fiscal year 2010-2011. Before the economic downturn began in fiscal year 2007-2008, the portfolio's annualized returns for the previous five years placed it in the upper half of the Hewitt Universe. The portfolio met all of the policy objectives in 2007 and 2008, but fell below policy objectives beginning in 2009. The 2010-2011 fiscal year is beginning to show signs of recovery.

There were no negative returns in the portfolio for fiscal year 2011 (before fees). The best performance relative to the benchmark and Hewitt Universe was turned in by Eagle Small Cap Growth, 54.3 percent (4th percentile) versus 43.5 percent for the Russell 2000 Value. This fund was also the largest absolute return. The CRM Small Cap Value had similar results (42.0 percent, 5th percentile) versus the same benchmark. The Vanguard Small Cap Growth Index also placed in the 25th percentile with a return of 46.4 percent though it fell below the MSCI US Small Cap Growth Index of 46.5 percent. The Large Cap Value Dodge & Cox Separate Account and Dodge & Cox Stock outpaced the Russell 1000 Value Index 31.6 percent and 31.0 percent respectively compared to Russell's 28.9 percent.

While the 2011 results were slightly positive and encouraging, many of the managers continued to underperform compared to the benchmarks. During the fiscal year, we terminated one small cap growth manager, but added two additional small cap managers. We also terminated our RREEF America REIT II and recommended to the Board of Trustees that UBS Realty investors Trumbull Property Fund be hired to replace RREEF. The University and Hewitt Investment Group believe that the remaining investments are desirable and their long-term performance will eventually exceed the University's objectives. As it periodically does, the University, with the assistance of Hewitt Investment Group, is reviewing its overall asset allocation strategy and considering the inclusion of additional investment strategies or managers within the existing strategies.

Required Supplemental Information

In addition to the two required financial statements, GASB Statement No. 43 also requires supplemental information in the form of two required schedules: the Schedules of Funding Progress and the Schedules of Contributions from University and Other Entities. Both schedules are intended to show current and prior year amounts so that trends in funding can be ascertained.

Schedules of Funding Progress

The Schedules of Funding Progress compare the Actuarial Accrued Liability (AAL) to the assets accumulated in the VEBA Trust and the LICF as of the point in time when the AAL is calculated, in this case July 1, 2011. For health care, the \$156,645,642 net assets in the VEBA Trust are compared to the AAL balance of \$181,683,897, which results in an Unfunded AAL (UAAL) of \$25,038,255, or a Funded Ratio of 86.2 percent under GASB Statement No. 43 rules. This contrasts with the year ended June 30, 2009, when the VEBA Trust net assets of \$114,147,732 compared to the AAL balance of \$192,195,650 and an Unfunded AAL (UAAL) of \$78,047,918 and a Funded Ratio of 59.4 percent. As anticipated, the volatile U.S. and world economies that had a negative effect on the VEBA Trust as unrealized losses from market depreciation in 2009, have somewhat rebounded to post unrealized gains in 2011. The 2011 ratio, of 86.2 percent, exceeds the funding level of similar plans and is indicative of a secure plan. Since the UAAL amounts to 16.0 percent of covered payroll, funding the remainder in one year would be a heavy burden, which is why the University intends to fund the amount over no more than 30 years, and preferably fewer years if circumstances permit.

Life Insurance AAL again exceeded the assets in the LICF for the second consecutive year since the University began requesting this calculation, resulting in a Funded Ratio of 96.5 percent in 2011 and 82.1 percent in 2009. When combined with the Health Care results, the total funded ratio becomes 87.3 percent in 2011 and 61.5 percent in 2009. To the extent possible, once the LICF again achieves full funding, and without impairing the adequacy of the LICF, funds will likely be transferred to the VEBA Trust, as has happened on occasion in the past, to help with funding for retiree health insurance.

Schedules of Contributions from University and Other Entities

These schedules compare actual contributions to the ARC, which is an actuarial calculation of "normal cost" each year plus the annual amortization of UAAL. Actual contributions consist, in the case of Ball State University, of employer-paid claims plus any contributions to the VEBA Trust and/or the LICF. In the case of health insurance, the actual contributions were above the ARC, resulting in a percentage contributed of 156.5 percent. In addition, the Medicare Retiree Drug Subsidy increased the contributions in excess of the ARC to 174.1 percent. For life insurance, contributions were made as cash payments to early retirees in lieu of life insurance, which resulted in 65.6 percent of the ARC being contributed in 2011.

Economic Factors That Will Affect the Future

The biggest single factor that affects the future of these programs is the pace of health care spending. Health care providers continue to improve the quality of their services to patients, in many cases curing or managing what was formerly incurable and beyond management. New technologies related to advances in health care have been bringing about significant diagnostic and treatment advances. However, all of this has come at a cost that exceeds the general rate of inflation. When combined with a rapidly aging population, the result has been a rate of increase that has on occasion been in double digits in the recent past. The current study by the consulting actuaries from Mercer assumes Ball State University retiree medical costs increasing as follows:

Year	Pre-65	Post-65	Drugs	Dental	Administration
	Medical	Medical			
2011	7.60%	6.90%	7.60%	5.00%	4.00%
2012	7.40%	6.80%	7.40%	5.00%	4.00%
2013	7.20%	6.80%	7.20%	5.00%	4.00%
2014	7.00%	6.70%	7.00%	5.00%	4.00%
2015	6.80%	6.60%	6.80%	5.00%	4.00%
2016	6.60%	6.60%	6.60%	5.00%	4.00%
2017	6.40%	6.40%	6.40%	4.90%	4.00%
2018	6.20%	6.20%	6.20%	4.90%	4.00%
2019	6.00%	6.00%	6.00%	4.80%	4.00%
2020	5.70%	5.70%	5.70%	4.80%	4.00%
2021	5.50%	5.50%	5.50%	4.70%	4.00%
2022	5.30%	5.30%	5.30%	4.70%	4.00%
2023	5.10%	5.10%	5.10%	4.60%	4.00%
2024	4.90%	4.90%	4.90%	4.60%	4.00%
2025	4.70%	4.70%	4.70%	4.50%	4.00%
2026+	4.50%	4.50%	4.50%	4.50%	4.00%

According to the actuaries, the earlier numbers represent recent experience with Ball State University's retiree population, while the later numbers consider the implication that the overall economy cannot sustain the current rates of increase in health care costs. Something will have to change in the way health care is priced and delivered. In all likelihood, it will be some combination of federal funding and mandates, incentives for healthy lifestyles, rationing of services, plus more direct consumer involvement and choice in the selection of treatment and the payment of health care expenses. In March of 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law, with the aim of providing insurance coverage to all Americans and reducing the overall cost of health care for all, including retirees through reductions in Medicare. Prior to that we saw the establishment of Medicare Part D prescription drug coverage with subsidies to qualifying employer drug plans for retirees, as well as high-deductible health savings account health insurance plans that incentivize members to choose care options based on price as well as other factors. It will be a few years before we realize the effect of the PPACA. At this point in time, the University's Health Care Plans are "grandfathered" and so the full effect of the PPACA will be delayed.

The worst recession in decades may have officially ended in June 2009, but the effects are still being felt in the U.S. and across the globe. Fiscal years 2011 and 2010 still experienced tremendous volatility in the world markets. Since June 30, 2009, the investment markets have steadily improved, but are still weak. U.S. Gross Domestic Product (GDP) grew at a rate of 2.5 percent for the third quarter of 2011, which is the ninth straight quarter with growth, following five out of six quarters with falling GDP between January 2008 and June 2009. The decline in market values of residential and commercial property in the United States as well as a number of foreign countries has either continued or, where it has reached bottom, has showed little recovery. Loan defaults and foreclosures have slowed. The result has been a continued slow economic growth in the United States and elsewhere. The U.S. unemployment rate remains stubbornly at 9.1 percent (August 2011), only slightly below the peak of 10.1 percent in October 2009. Complicating the picture has been increased spending and borrowing by governments world-wide, leading to fears of sovereign default on bonds as well as the possibility of inflation. At the same time, the continued slowing of economic growth has led to fears of deflation. This uncertainty has led to increased volatility in the investment markets. The longer this uncertainty persists, the more difficult it will be to maintain the current level of funding of the steadily increasing actuarial liability.

The University has continued its commitment to health enhancement and wellness programs for both active employees and retirees in order to reduce the rate of increase in serious illness and the associated health claims. It is hoped and anticipated that this effort will reduce health care claims expenditures and premiums for both employees and the University and reduce actuarial liabilities calculated in the future.

In summary, although there is a great deal of uncertainty in the economy and in the health care arena, Ball State University employees and retirees nevertheless have benefited from the long-term tangible commitment the University has made to funding these important retiree benefits. While it is impossible to say with any degree of certainty that the benefit will remain unchanged in the future in the face of whatever contingencies may arise, the level of funding that has been achieved to date is the best assurance that these benefits are secure for the future.

Requests for Information

Questions about any information provided in this report should be addressed to:

Ball State University
Office of University Controller
AD 301
Muncie, IN 47306

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Ball State University
Retiree Health and Life Insurance Plans
Notes to Financial Statements
June 30, 2011 and 2010

Note A – Significant Accounting Policies

Reporting Entity

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single-employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education in the State of Indiana governed by a nine-member Board of Trustees in accordance with IC 21-19-3. As part of a comprehensive employee benefits program, Ball State University provides health and life insurance benefits, in addition to pension benefits, to eligible retired employees.

Health insurance at Ball State University is a self-funded plan that utilizes third party administrators for health and dental benefits and for prescription drug benefits. Each year, the Board of Trustees establishes premiums for the next fiscal year, of which 22.0 percent are paid by the employees and retirees, and 78.0 percent are paid by the University. The premiums are intended to fully fund all claims, administrative costs, reserve adjustments, and contributions to a VEBA Trust established to partially fund health care costs for eligible retirees and their beneficiaries. The claims and applicable administrative costs of current retirees are paid from the self-funded plan, while the contributions to the VEBA Trust are intended to partially fund claims and administrative costs for retirees in the future. All of these payments count toward the Annual Required Contribution payment as calculated under GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

Life insurance at Ball State University is purchased from CIGNA, with premiums equal to actual claims plus a monthly administrative charge. Ball State University accounts for the Life Insurance Plan in a manner similar to the Health Insurance Plan. Each year CIGNA establishes, and the Board of Trustees approves, premiums for the next fiscal year, and 25.0 percent is collected from employees and retirees and 75.0 percent from the University. The premiums are intended to fully fund all claims and administrative costs for employees and retirees. CIGNA pays actual claims, and bills the University for the employees and charges the LICF for the retiree claims and administration. On occasion, excess funds in the LICF are transferred to the VEBA Trust.

Contributions and Benefits

Retiree premiums, related University match, and federal subsidy are recognized when due. Contributions to the VEBA Trust and the LICF from the University are discretionary and are recognized when received. Benefits and refunds are recognized when due and payable to the extent they can be ascertained, in accordance with the terms of the plan. The plans are described in greater detail in Note E.

Federal Income Tax Status

Ball State University is exempt from federal taxes under Section 115 of the Internal Revenue Code. In addition, the VEBA Trust is exempt under section 501(c)(9) and the LICF is exempt as a variable life insurance contract under Section 817(c).

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, the Plans make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Administrative Expenses

Administrative expenses of the Plans are generally absorbed by the University, except that administrative charges from third party administrators, actuaries and consultants applicable to retiree health care and life insurance and investments are financed by premiums paid by the University and the retirees.

Commitments and Contingencies

Other than claims incurred but not reported, for which an accrual has been estimated, the Plans have not made any purchase commitments. There are no contingent liabilities as of the date of the financial statements.

Financial Statements

Due to the methods used to administer these plans, the financial statements reflect all of the activity in the health and life insurance plans as it pertains to retiree and University shares of premiums, claims, administrative costs, as well as contributions, investment activity and related costs in the VEBA Trust and the LICF. Balances included in the financial statements of the University are reflected as receivable from the University.

The financial statements are prepared using the accrual basis of accounting. Premiums from retirees and the University are recognized in the period they are due, while contributions to the VEBA Trust and the LICF are recognized when paid by the University. The Medicare Retiree Drug Subsidy is recognized in the period to which the subsidy pertains, with any unknown amounts estimated based on the amounts known. Benefit claims are recognized in the period incurred and payable, to the extent they are known or able to be estimated. Actual results will differ from these estimates, and will be recognized in the subsequent period.

Net Assets

Net assets are composed of two amounts, the larger of which is the amount on deposit in the VEBA Trust and the LICF at fair value on June 30, 2011. The remaining amount, classified as other net assets, represents assets that have not been deposited with the VEBA Trust and the LICF as of June 30, 2011.

Note B – Investments

The plans rely on various investment managers hired by the University's Board of Trustees, with the advice of outside consultants, to prudently invest the amounts contributed, in accordance with IC 30-4-3.5, the Indiana Uniform Prudent Investor Act. These investment manager arrangements are in the form of mutual funds, separately managed accounts with securities in the possession of custodians other than the investment manager, a private investment trust, and a private closed-end real estate investment trust. Investments are reported by the managers and, in some cases custodial banks at fair value, which in most cases represents the published market value as of the close of business on the last business day of the accounting period. Where the value is expressed in currencies other than dollars, the exchange rate applicable to the date of the market valuation is used. Fixed income securities maturing within one year of the date of the financial statements are classified as short term investments. The fair value of the investment in the REIT is based on independent appraisals and internal valuations of recent acquisitions. The REIT publishes annual audited financial statements. The REIT was liquidated during the 2011 fiscal year.

Purchases and sales of investments are recorded as of their trade date. Dividend income is recognized on the ex-dividend date. Interest income is recorded as earned.

The portfolio's risk exposures are as follows:

1. Custodial Credit Risk, Deposits – Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, the VEBA Trust and/or the LICF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All of the cash in the Plans is invested in money market accounts sponsored by the applicable custodial bank. These accounts are neither insured nor collateralized.
2. Custodial Credit Risk, Investments – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the VEBA Trust and/or the LICF would not be able to recover the value of its investment or collateral securities that are in the possession of another party. Since JPMorgan Asset Management holds all VEBA Trust investments in the name of the VEBA Trust or its nominee, and Bank of New York Mellon holds all LICF investments in the name of CIGNA, the investments are not exposed to custodial credit risk.
3. Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policies for the VEBA Trust and the LICF includes limiting securities rated below A by Standard & Poor's and Moody's to 15.0 percent due to downgrades only, with the further stipulation that securities that fall below BBB (Standard and Poor's) or Baa (Moody's) should be sold as soon as possible.

The following tables present the Standard and Poor's quality ratings of non-government-guaranteed fixed income assets in the LICF and the VEBA Trust as of June 30, 2011 and 2010.

<u>LICF</u>						
<u>Average Credit Quality and Exposure</u>						
<u>Levels of Non-Government Guaranteed Securities</u>						
Year Ended June 30, 2011						
Standard & Poor's	Agency	Corporate Bonds		Mortgage Backed Securities	Collateralized Mortgage Backed Securities	Asset Backed Securities
		Short Term	Long Term			
AAA	\$ 95,365	\$ -	\$ 15,704	\$ 3,157,210	\$ 62,804	\$ -
AA+	-	-	49,450	-	-	-
AA	-	-	65,664	-	-	-
AA-	-	-	64,066	-	21,614	-
A+	-	-	126,215	-	-	-
A	-	-	329,745	-	-	10,675
A-	-	10,471	193,510	-	-	-
BBB+	-	-	121,049	-	-	9,799
BBB	-	-	115,323	-	-	-
BBB-	-	-	63,261	-	-	-
BB+	-	-	-	-	-	-
BB-	-	-	-	9,347	-	-
B+	-	-	-	-	-	1,761
B	-	-	-	9,329	-	-
CCC	-	-	-	3,431	-	3,512
D	-	-	-	-	-	9,451
NR	-	6,463	2,613	3,246	10,907	-
Total	\$ 95,365	\$ 16,933	\$ 1,146,599	\$ 3,182,563	\$ 95,326	\$ 35,197
Percent of All Fixed Income Assets	1.5%	0.3%	18.3%	50.7%	1.5%	0.6%

LICF
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2010

Standard & Poor's	Agency	Corporate Bonds		Mortgage Backed Securities	Collateralized Mortgage Backed Securities	Asset Backed Securities
		Short Term	Long Term			
AAA	\$ 51,926	\$ -	\$ 5,839	\$ 1,964,402	\$ 82,588	\$ -
AA+	-	-	32,019	-	-	-
AA	-	-	55,204	-	-	-
AA-	-	-	37,843	-	21,054	-
A+	-	-	81,859	-	-	-
A	-	-	228,888	-	-	7,558
A-	-	-	123,015	-	-	-
BBB+	-	-	64,116	-	-	11,774
BBB	-	-	51,721	-	-	-
BBB-	-	-	47,334	-	-	-
BB+	-	-	-	15,006	-	1,692
BB-	-	-	-	12,484	-	-
B	-	-	-	13,766	-	-
CCC	-	-	-	6,301	-	9,349
D	-	-	-	-	-	6,790
NR	-	-	2,962	3,665	21,042	-
Total	\$ 51,926	\$ -	\$ 730,800	\$ 2,015,624	\$ 124,684	\$ 37,163
Percent of All Fixed Income Assets	1.3%	0.0%	18.4%	50.7%	3.1%	0.9%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2011

Standard & Poor's	Federal Agencies			
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations
AAA	\$ 457,634	\$ -	\$ 14,390,346	\$ -
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
AA	-	-	-	10,269
AA-	-	-	-	36,702
A+	-	-	-	27,600
A	-	-	-	-
Total	\$ 457,634	\$ -	\$ 14,390,346	\$ 74,571
Percent of All Fixed Income Assets	1.2%	0.0%	36.7%	0.2%

Standard & Poor's	Corporate Bonds & Notes		Foreign Bonds		Asset Backed Obligations
	Short Term	Long Term	Short Term	Long Term	
AAA	\$ -	\$ -	\$ -	\$ 99,061	\$ 618,632
AA+	-	472,262	-	-	-
AA	-	389,605	-	365,676	-
AA-	46,795	383,600	-	269,217	-
A+	5,169	1,254,584	-	188,632	-
A	42,190	3,119,713	-	103,160	-
A-	51,506	1,301,930	-	528,730	-
BBB+	-	306,814	-	-	-
BBB	-	53,452	-	-	-
BBB-	-	16,067	-	-	-
BB-	-	-	-	-	-
NR	-	-	-	-	654,469
Total	\$ 145,660	\$ 7,298,027	\$ -	\$ 1,554,476	\$ 1,273,101
Percent of All Fixed Income Assets	0.4%	18.6%	0.0%	4.0%	3.2%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2010

Standard & Poor's	Federal Agencies				Asset Backed Obligations
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations	
AAA	\$ 514,082	\$ -	\$ 11,837,894	\$ -	
AA+	-	-	-	-	
AA	-	-	-	-	
AA-	-	-	-	-	
A+	-	-	-	-	
AA	-	-	-	10,224	
AA-	-	-	-	35,884	
A+	-	-	-	28,233	
A	103,382	-	-	-	
Total	\$ 617,464	\$ -	\$ 11,837,894	\$ 74,341	
Percent of All Fixed Income Assets	1.8%	0.0%	34.0%	0.2%	

Standard & Poor's	Corporate Bonds & Notes		Foreign Bonds		Asset Backed Obligations
	Short Term	Long Term	Short Term	Long Term	
AAA	\$ -	\$ -	\$ -	\$ -	\$ 897,207
AA+	-	353,802	-	-	-
AA	66,301	235,030	-	135,755	-
AA-	51,021	411,973	-	143,077	-
A+	50,883	687,663	25,445	67,860	-
A	454,696	2,589,518	-	45,963	-
A-	-	835,563	-	273,472	-
BBB+	-	405,127	-	-	-
BBB	-	51,999	-	-	-
BBB-	60,898	15,355	103,422	-	-
BB-	-	-	-	-	-
NR	-	-	-	-	386,962
Total	\$ 683,799	\$ 5,586,030	\$ 128,867	\$ 666,127	\$ 1,284,169
Percent of All Fixed Income Assets	2.0%	16.0%	0.4%	1.9%	3.7%

4. Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issuer. Neither the LICF nor the VEBA Trust has a single issuer exposure that comprises five percent of the overall portfolio.
5. Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolios of the LICF and the VEBA Trust are monitored by measuring the weighted average duration of each portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The Investment Policy for the LICF portfolio states that the total portfolio duration should not deviate by more than one year from the duration of the BC Aggregate Index. Similarly, the Investment Policy for the VEBA Trust portfolio states that the total portfolio duration should not deviate more than one year from the duration of the BCGC Intermediate Bond Index.

Notes to Financial Statements

The following tables list the effective weighted average duration of fixed income investments in the LICF and the VEBA Trust at June 30, 2011 and 2010.

LICF

Year Ended June 30, 2011

Fixed Income Security Type	Fair Value June 30, 2011	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	\$ 1,337,780	21.3%	6.3
Federal Agency Securities	\$ 95,365	1.5%	5.6
Corporate Bonds	\$ 1,163,533	18.5%	6.0
Mortgage Backed Securities	\$ 3,182,563	50.7%	3.7
Collateralized Mortgage Backed Securities	\$ 95,326	1.5%	1.8
Asset Backed Securities	\$ 35,197	0.6%	2.1
Cash and Money Market	\$ 364,847	5.8%	-

LICF

Year Ended June 30, 2010

Fixed Income Security Type	Fair Value June 30, 2010	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	\$ 795,704	20.0%	6.1
Federal Agency Securities	\$ 51,926	1.3%	7.1
Corporate Bonds	\$ 730,800	18.4%	5.8
Mortgage Backed Securities	\$ 2,015,624	50.7%	2.7
Collateralized Mortgage Backed Securities	\$ 124,684	3.1%	2.1
Asset Backed Securities	\$ 37,163	0.9%	2.8
Cash and Money Market	\$ 221,021	5.6%	-

VEBA Trust

Year Ended June 30, 2011

Fixed Income Security Type	Fair Value June 30, 2011	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	\$ 9,339,739	23.8%	4.5
U.S. Treasury Strips	\$ 3,626,789	9.3%	5.0
U.S. Treasury Receipts	\$ 91,390	0.2%	8.4
Federal Agency Bonds and Notes	\$ 457,634	1.2%	6.3
Federal Agency Collateralized Mortgage Obligations	\$ 11,075,859	28.3%	3.6
Federal Agency Pass Through	\$ 3,314,487	8.5%	2.5
Government National Mortgage Assoc Pools	\$ 13,002	0.0%	3.0
Asset Backed Obligations	\$ 1,273,101	3.2%	1.8
Foreign Bonds	\$ 1,554,476	4.0%	4.3
Foreign Government Obligations	\$ 74,571	0.2%	4.4
Corporate Bonds and Notes	\$ 7,443,687	19.0%	4.1
Cash and Money Market	\$ 934,391	2.4%	-

VEBA Trust

Year Ended June 30, 2010

Fixed Income Security Type	Fair Value June 30, 2010	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	\$ 5,697,789	16.3%	5.6
U.S. Treasury Strips	\$ 3,924,742	11.3%	5.6
U.S. Treasury Receipts	\$ 85,261	0.2%	9.5
Federal Agency Bonds and Notes	\$ 617,464	1.8%	3.8
US Treasury Infl Idx	\$ 111,290	0.3%	1.0
Federal Agency Collateralized Mortgage Obligations	\$ 9,268,216	26.6%	1.8
Federal Agency Pass Through	\$ 2,569,678	7.4%	2.0
Government National Mortgage Assoc Pools	\$ 14,572	0.0%	3.1
Asset Backed Obligations	\$ 1,284,169	3.7%	2.0
Foreign Bonds	\$ 794,994	2.3%	4.1
Foreign Government Obligations	\$ 74,341	0.2%	5.1
Corporate Bonds and Notes	\$ 6,269,829	18.0%	3.8
Cash and Money Market	\$ 4,140,724	11.9%	-

6. Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Currency risk exposures, or exchange rate risk, for the VEBA Trust and the LICF primarily reside within international equity investment holdings. The amounts and countries listed are in addition to holdings within mutual funds in the portfolios. Any hedges through currency forward contracts are at the discretion of the investment managers.

VEBA Trust and LICE
Year Ended June 30, 2011

<u>Country</u>	<u>Fixed Income</u>	<u>Equities</u>
Australia	\$ 15,965	\$ 38,957
Austria	-	387,416
Belgium	-	77,914
Bermuda	5,552	-
Canada	17,508	1,018,072
Denmark	-	220,755
Emerging Markets	-	3,588,669
Finland	-	3,292,863
France	-	643,814
Germany	5,255	4,786,586
Greece	-	64,928
Hong Kong	-	444,998
Ireland	-	1,246,619
Israel	-	77,914
Italy	-	2,180,692
Japan	-	1,632,180
Luxembourg	12,677	-
Netherlands	28,889	240,790
Norway	-	626,327
Portugal	-	90,899
Singapore	-	286,336
Spain	-	2,001,120
Sweden	-	587,815
Switzerland	-	1,501,359
United Kingdom	39,378	501,442
	<u>\$ 125,225</u>	<u>\$ 25,538,465</u>

VEBA Trust and LICE
Year Ended June 30, 2010

<u>Country</u>	<u>Fixed Income</u>	<u>Equities</u>
Canada	\$ 243,545	\$ 126,599
United Kingdom	334,296	1,295,494
Australia	120,216	-
Netherlands	125,064	716,640
Bermuda	61,570	13,058
Germany	56,123	-
China	-	117,525
Luxembourg	-	84,879
Cayman Islands	-	32,646
Mexico	-	104,813
Ireland	-	135,105
Finland	-	157,295
Switzerland	-	991,022
Japan	-	559,159
France	16,365	483,966
Greece	-	78,350
Israel	-	13,058
Sweden	-	165,300
	<u>\$ 957,179</u>	<u>\$ 5,074,909</u>

Note C – Derivatives

The investment policy strictly limits derivatives as follows:

- Index U.S. Large Cap Equity Mutual Fund Managers – may be used only to provide liquidity and to “equitize” dividends and other cash flow and may not exceed ten percent of the portfolio.
- Active U.S. Small Cap Equity Managers – options and futures limited to covered hedges only.
- International Equity Mutual Fund Managers – currency hedging is permitted.
- Fixed Income Managers – limited to pass through mortgage backed and asset backed securities and PAC I (Planned Amortization Class) CMOs (Collateralized Mortgage Obligations), but interest rate and prepayment sensitivity of these instruments must be similar to typical bonds of similar maturity and coupon. The total exposure to derivative securities should not exceed the allocations within the portfolio's benchmark index.

Derivatives subject to significant price volatility in response to changes in interest rates or prepayment rates, such as interest-only securities, principal-only securities (POS), Inverse Floaters, Structured Notes, etc. are prohibited.

Note D – Contributions and Reserves

It is the intent of Ball State University to contribute annually from the Health and Life Insurance Plans an amount at least equal to the actuarially calculated ARC. The University uses the projected unit credit funding method to calculate the ARC. Under this method, the ARC is calculated by amortizing the unfunded actuarial accrued liability (which only takes into account credited service as of the valuation date) over 30 years and adding on the Normal Cost (representing the additional year of credited service earned during the year). The minimum contribution is equal to the ARC minus actual benefits paid on behalf of retirees and dependants. Additional amounts may be contributed if available.

Note E – Description of Plans

Substantially all of the University's regular full-time employees may become eligible for retiree health and life insurance coverage if they retire from the University after accruing the required years of service (15 years at age 62; 15 years at age 50 for those hired before July 1, 2009; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2011, out of a total of 3,021 (2,997 in 2010) benefits eligible active employees, 904 (860 in 2010) had fulfilled the age and service requirements for these retiree benefits.

Retiree health care benefits are the same as employee health care benefits (for retirees not eligible for Medicare) or substantially the same (for retirees who qualify for Medicare). The Plan includes prescription drug coverage and dental coverage (dental coverage is optional for retirees who qualify for Medicare). Spouses and dependants are eligible for coverage under the same rules as the employee plan, and unmarried surviving spouses are eligible to retain the coverage for the remainder of their lifetime. Medicare-eligible retirees and spouses receive supplemental “carve-out” medical coverage which is coordinated with Medicare Part A and Part B. Dental and prescription drug coverage is the same under all plans.

For the year ended June 30, 2011, retirees contributed \$2.4 million (\$2.2 million in 2010) in premiums for health care coverage to fulfill their 22.0 percent of total premium requirement, while the University contributed \$6.7 million (\$6.5 million in 2010) as its 78.0 percent requirement. Monthly premiums paid by retirees not eligible for Medicare ranged from \$28.56 for single coverage in the least expensive plan option to \$500.42 for family coverage in the most expensive plan option. Most non-Medicare retirees paid \$192.78 per month for single coverage and \$500.42 per month for family coverage. Medicare-eligible retirees and spouses each paid \$83.96 for medical and prescription drug coverage and \$7.98 if they chose the optional dental coverage. This was in addition to the Medicare Part B Premium.

Eligible employees receive life insurance coverage equal to 103.0 percent of twice the amount of their defined annual compensation, up to a maximum of \$75.0 thousand. Retirees are eligible to receive 50.0 percent of the amount of coverage they have immediately prior to retirement or prior to reaching age 66, whichever occurs first. Faculty and professional personnel who retire under the Early Retirement Program have the option of receiving 40.0 percent of the amount of coverage they are entitled to receive in retirement as a cash settlement in lieu of coverage.

For the year ended June 30, 2011, retirees contributed \$18.3 thousand (\$18.8 thousand in 2010) in premiums for life insurance coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$54.9 thousand (\$55.8 thousand in 2010) as its 75.0 percent requirement. Retirees pay \$.07 per \$1,000 of coverage per month, which means the maximum monthly premium paid by retirees is \$2.63.

Note F – Funded Status and Funding Progress

The funded status of each plan as of the most recent actuarial valuation date is as follows:

<u>Schedules of Funding Progress</u>							
	Actuarial						UAAL as
	Valu- ation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	a % of Covered Payroll
Health	7/1/11	\$ 156,645,642	\$ 181,683,897	\$ 25,038,255	86.2%	\$ 156,320,370	16.0%
Life	7/1/11	21,487,762	22,261,030	773,268	96.5%	\$ 156,320,370	0.5%
Total		<u>\$ 178,133,404</u>	<u>\$ 203,944,927</u>	<u>\$ 25,811,523</u>	87.3%	\$ 156,320,370	16.5%
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	16,546,332	20,150,137	3,603,805	82.1%	\$ 151,120,585	2.4%
Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedules of Funding Progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying Schedules of Contributions from the University and Other Entities present trend information about the amounts contributed to the plan by the University and the federal government through the Medicare Retiree Drug Subsidy in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the University and its eligible employees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the University and its eligible employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Projected unit credit
Amortization Method	Level dollar over a 30-year closed period (closed basis)
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5% per year compounded annually
Payroll Growth Rate	4.0% per year compounded annually
Healthcare Cost Trend Rates:	
Pre-65 Medical	7.6% initial / 4.5% ultimate (not applicable to Life)
Post-65 Medical	6.9% initial / 4.5% ultimate (not applicable to Life)
Prescription Drugs	7.6% initial / 4.5% ultimate (not applicable to Life)
Dental	5.0% initial / 4.5% ultimate (not applicable to Life)
Administration	4.0%

Ball State University
Retiree Health and Life Insurance Plans
Required Supplemental Information
June 30, 2011

Schedules of Funding Progress

		Actuarial				UAAL as	
Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	a % of Covered Payroll	
Health	7/1/11	\$ 156,645,642	\$ 181,683,897	\$ 25,038,255	86.2%	\$ 156,320,370	16.0%
Life	7/1/11	21,487,762	22,261,030	773,268	96.5%	\$ 156,320,370	0.5%
Total		<u>\$ 178,133,404</u>	<u>\$ 203,944,927</u>	<u>\$ 25,811,523</u>	87.3%	\$ 156,320,370	16.5%
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Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%

Schedules of Contributions from University and Other Entities

Year Ended June 30	Health Care				Life Insurance	
	Annual Required Contribution	Percentage Contributed	Federal Subsidy	Total Percentage Contributed	Annual Required Contribution	Percentage Contributed
2011	\$ 6,415,719	156.5%	\$ 1,130,869	174.1%	\$ 446,152	65.6%
2010	\$ 10,782,403	94.7%	\$ 1,279,788	106.5%	\$ 537,185	238.0%
2009	\$ 7,632,201	116.9%	\$ 1,000,928	130.0%	\$ 152,118	214.3%