FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

RETIREE HEALTH
AND
LIFE INSURANCE PLANS

BALL STATE UNIVERSITY®

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, 2016, and 2015,

and the changes in net position

for the years then ended.

Bernard M. Hannon
Vice President for Business Affairs
and Treasurer

July 17, 2017

Ball State University

2015-2016

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ball State University
Muncie, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Retiree Health and Life Insurance Plans of Ball State University (the Plans), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of changes in net position for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 auditors' 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.

A member of Nexia International

Board of Trustees
Ball State University

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plans as of June 30, 2016 and 2015, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, the financial statements reflect the balances and 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 and OPEB Trusts and excludes balances and activity in the health and life insurance plans as it pertains to active employees. Our opinion is not modified with respect to that matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and contributions from university and other entities on pages 1–11 and 27, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2017, on our consideration of the Plans' 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 result 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 the Plans' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
July 17, 2017

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Ball State University
Retiree Health and Life Insurance Plans
Management's Discussion and Analysis
June 30, 2016 and 2015

Introduction and Overview

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single employer defined benefit plans, both of which are administered by the University. Ball State University (the University) is a public institution of higher education located in Muncie, Indiana. As of the beginning of each academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled:

	2016	2015	2014
Full-time Personnel	3,097	2,994	2,954
Part-time Personnel	378	419	436

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 dependents. The following table presents the amount of benefits the University recorded and a break-out of the most significant benefit costs for the current year and the preceding two years:

(in Millions of Dollars)	2016	2015	2014
Benefits	$ 89.8	$ 76.3	$ 79.5
Unused Vacation and Sick Days Included in Personnel Services	21.3	20.6	19.7
Total Benefits	$ 111.1	$ 96.9	$ 99.2
Benefits Include the Following:			
Health Insurance for Active Employees	$ 25.9	$ 25.5	$ 31.9
Pension Contributions*	39.6	25.4	21.3
Matching Payments to Social Security and Medicare	14.6	14.2	13.9
Health Insurance for Current Retirees	5.1	6.9	8.7
Miscellaneous Other	3.2	4.3	3.7
Total Benefits (Excluding Unused Vacation and Sick Days)	$ 88.4	$ 76.3	$ 79.5

** The University pays 100.0 percent of the required contributions to pension plans.*

Beginning July 1, 2011, 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. These percentage ranges are shown below:

	2016	2015	2014
University's Premium:	71.0 - 89.0%	71.1 - 89.0%	71.1 - 90.1%

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).

Number Calculated at Fiscal Year Ended June 30:	2016	2015	2014
Retirees with Life Insurance Coverage	1,057	1,074	1,016
Retirees, Spouses and Surviving Spouses with Health Insurance	1,998	2,007	1,957
Active Employees Who Have Fulfilled Age and Service Requirements for Benefits	786	791	859

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) (now OPEB 115 Trust) and the Voluntary Employee Beneficiary Association (VEBA) Trust to help fund future retiree benefits. On January 1, 2014, the variable life insurance contract with CIGNA was terminated, and a fully-insured retiree life insurance benefit was begun with The Hartford as carrier. LICF (now OPEB 115 Trust) was liquidated on March 31, 2014, and all proceeds were invested in an Other Post Employment Benefit (OPEB) Section 115 Trust Fund, with various fund managers. JPMorgan was named custodian of the new trust fund, with the exception of the investment in the UBS Trumbull Property Fund, which was established separately within the OPEB 115 Trust.

The VEBA Trust, the larger of the two funds, was established to partially finance the cost of retiree health care. The original vision was that 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 (actuarial value of the investments) and the denominator (actuarial accrued 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. Even though the liability, as calculated under Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* rules, has declined to a funded status of 86.3 percent as of the most recent valuation date of July 1, 2016, the VEBA Trust continues 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 which is still strong, total premiums are lower than they would be otherwise.

Many near-retirees in higher education are concerned about their ability to afford health care in retirement. A May 18, 2016, article from HealthView Insights, entitled "HealthView Services: 2016 Retirement Health Care Costs Data Report" revealed that average annual health care expenses for a couple in retirement in 2016-2019 are expected to be $10,680, escalating over five-year periods, to annual expected expenses in retirement in 2035-2039 at a level of $37,558. The article goes on to say that health care spending is projected to grow at a rate of 5.1 percent per year. With medical care becoming more expensive and health care inflation expected to remain significantly above annual Social Security COLA's (cost of living adjustments), health care will be among the most significant expenses for Americans in retirement.

Employer-provided retiree health insurance is a significant benefit for retirees. For many Americans, health care likely will be among their largest expenses in retirement. An article dated August 16, 2016, from CNN Money, entitled "Health Care Will Cost You $260,000 in Retirement", revealed that Fidelity Benefits Consulting estimated that a 65-year-old couple retiring in 2016 would need to have saved up $260,000 to cover medical expenses throughout retirement. 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). Things like home health aides, assisted living, and nursing homes are not covered by Medicare, so some people opt to buy long-term care insurance. Fidelity estimates that the same 65-year-old couple retiring this year would need an additional $130,000 to insure against long-term care expenses. Similar to the decision pre-retirees make about when to start claiming Social Security benefits, health care costs should be factored into the retirement timing decision.

Both the HealthView Insights article and the CNN Money article recommended that individuals planning for retirement make use of Health Savings Accounts (HSA), a tax-free investment vehicle that can be earmarked to pay for eligible health care expenses in retirement.

For the years ended June 30, 2016, 2015, and 2014, the cost to Ball State University of health care for all current retirees, spouses, and surviving spouses were as follows:

	2016	2015	2014
Insurance Claims	$ 8,668,058	$ 9,315,618	$ 10,046,585
Administration	475,388	469,730	310,732
Total	$ 9,143,446	$ 9,785,348	$ 10,357,317
Less:			
Retiree Premiums	$ 3,115,598	$ 3,035,939	$ 2,776,870
Amount included in Benefits Expense	6,027,848	6,749,409	7,580,447
Less:			
Medicare Retiree Drug Subsidy/Employer Group Waiver Program (EGWP)	665,709	849,926	848,880
Net Cost of Benefit to University	$ 5,362,139	$ 5,899,483	$ 6,731,567

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. The percentages below illustrate the University's commitment to retirement benefits:

	2016	2015	2014
Retiree Health Care	5.2%	6.1%	6.8%
Pension Contributions	35.6%	26.3%	21.5%
Employer Portion of Social Security and Medicare	13.1%	14.6%	14.0%
Total Estimated Benefits for Retirement Purposes	53.9%	47.0%	42.3%

Historically, life insurance death claims were paid out of the LICF (now OPEB 115 Trust), and were not reflected in the University's benefit expense. However, with the change to a fully funded life insurance plan with The Hartford, the premiums in fiscal year 2015-2016 were paid partially out of the University's auxiliary life insurance plan fund, and partially out of the OPEB 115 Trust.

Funding Strategy

In fiscal year 1979-1980, the Ball State University Board of Trustees established the LICF (now OPEB 115 Trust) 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 (now OPEB 115 Trust) and the VEBA Trust. Following this action, Hewitt Investment Group was appointed as the investment consultant for these plans. In 2014, after an extensive bid process, Mercer Investment Consultants began performing duties as the University's investment consultant. Their responsibilities require them to meet 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 (now OPEB 115 Trust). In 2004, GASB issued Statement No. 43, 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, 2016, University contributions from date of inception totaled $68.0 million, while the ($3.3) million investment loss for the year brings the net dividends, interest, and realized and unrealized investment gains and losses from inception to date to $151.4 million. In addition, to date transfers from the OPEB 115 Trust of $9.4 million and withdrawals of $4.0 million were unchanged from the previous year.

The most recent actuarial projection of the retiree health care liability dated July 1, 2016, when compared to the VEBA Trust established to fund this liability, revealed that the liability is now 86.3 percent funded under GASB rules. This percentage is the lowest since the July 1, 2011 study. The decline is the result of a variety of factors, the most significant of which is a change in

actuarial cost method from the Projected Unit Credit cost method in place since inception of the plans to the Entry Age Normal method used in both the 2015 and 2016 valuations. The change in cost method was done in anticipation of a requirement contained in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* which is in effect for fiscal year ending June 30, 2017. As a result, the ARC, as calculated by the actuaries, is lower than the health insurance claims paid by the University. Even though the ARC or annual requirement is lower, the cost method shifts the payment responsibility into future periods thus increasing the Actuarial Accrued Liability. Other changes impacting the Actuarial Accrued Liability and thus the percent funded are changes in our demographics, eligibility, mortality rates, and lowering the discount value of future investment returns from 7.5 percent to 7.0 percent. All of the these changes were either mandated or adopted acting upon third party consultants to ensure our plans follow industry best practices. Even though the VEBA Trust recorded unrealized losses at June 30, 2016, the Medicare Retiree Drug Subsidy together with the payments the University makes for claims and premiums has allowed the University to fully-fund the ARC again this 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 2016 calendar year plan. The VEBA Trust continues to be relatively well-funded which is allowing for lower premiums than would have been expected for active employees, retirees and spouses, and the University.

The OPEB 115 Trust (previously LICF) was established to provide funding to pay for a portion of the retiree life insurance. From inception, the Trust has had cumulative contributions of $10.3 million, transfers to the VEBA Trust of $9.4 million, net earnings of $38.9 million, payout of $18.2 million and unrealized gains of $1.8 million. The OPEB 115 Trust has obtained a level of funding sufficient to subsidize both retiree and employer premiums at 75.0 percent.

Actuarial liability valuations are generally performed every two years with the most current valuation of July 1, 2016. However, as we look forward to the implementation of GASB Statement No. 74, we have decided to have the valuations performed each year. The next actuarial projection of the retiree health care and life insurance liability is scheduled for July 1, 2017.

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 and OPEB 115 Trusts that cannot be used for any purpose other than benefits for current and future 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 Position and the Statements of Changes in Net Position, prepared in accordance with the aforementioned GASB Statement No. 45. 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 the report of the independent auditors, management's discussion and analysis, in addition to the financial statements, notes to financial statements, and required supplemental information.

Financial Highlights

The Retiree Health and Life Insurance Plan assets have shown gains in the last five out of eight years following the losses that were suffered during the Great Recession. In fiscal year 2015-2016, the Combined Plans underperformed their benchmark and their peers for the year, and ranked in the 96th decile among peers (gross of fees). This underperformance was due primarily to declines in the United States small capitalization and international stock markets. The "blended benchmark" reflects the diversity of the portfolio and consists of the S&P 500 Index, the Dow Jones Wilshire 4500 Index, MSCI EAFE Index, the Barclays Aggregate Index, and the Russell 1000 Value Index.

	2016	2015	2014
Combined Plan Performance *(Gross of Fees)*	-1.2%	4.0%	20.0%
Blended Benchmark	0.6%	4.4%	18.4%

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.

For fiscal year 2013-2014, the Retiree Health and Life Insurance Plans outperformed both the median plan among peers and the custom benchmark by approximately 4.5 percent and 1.6 percent, respectively. The following fiscal year, the Plans outperformed the median plan among peers by 1.8 percent, but underperformed the custom benchmark by 0.2 percent. For fiscal year 2015-2016, the Plans underperformed the median plan among peers by 3.6 percent, and underperformed the custom benchmark by 1.8 percent. As of June 2016, the universe of peers included 168 VEBA /401(h) plans with assets totaling $23.5 billion.

When compared to the NACUBO (National Association of College and University Business Officers) Endowment Study for the same time period, the performance of the Retiree Health and Life Insurance Plans was as follows: in fiscal year 2013-2014, the Plans outperformed the average plan by 4.4 percent when compared to institutions with assets between $51.0 million and $100.0 million, and 4.1 percent when compared to institutions with assets between $101.0 million and $500.0 million; in fiscal year 2014-2015, the Plans again outperformed the average plan by two percent when compared to institutions with assets between $51.0 million and $100.0 million, and two percent when compared to institutions with assets between $101.0 million and $500.0 million; and in fiscal year 2015-2016, the Plans continued to outperform the average plan by 0.8 percent when compared to institutions with assets between $101.0 million and $500.0 million, but lagged behind institutions with assets between $250.0 million and $1.0 billion by 2.6 percent.

While the one-year results were somewhat discouraging, it should be noted that the investment policy for the VEBA and the OPEB 115 Trusts focuses on a five-year horizon, with the expectation that the annualized total return will exceed a customized index made up of the appropriate 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 net of fees trailed the customized index slightly with returns of 7.2 percent, versus 7.8 percent for the customized index, ranking in the 9th percentile among its peers.

During that same time period, according to NACUBO, endowments with assets between $250.0 million to $1.0 billion returned 6.6 percent, and endowments with assets between $101.0 million and $500.0 million returned 5.1 percent. At the end of fiscal year 2015-2016, funds in the OPEB 115 Trust had been invested in fixed income, a total world stock index fund, and real estate funds. Fixed income in both the VEBA and OPEB 115 Trusts over the five-year period showed a modest return. For the fiscal year, low volatility capitalization domestic markets had the best absolute performance, outperforming their benchmark by 10.4 percent (net of fees). Large capitalization posted slightly negative returns, trailing their respective benchmarks. Small capitalization domestic equity markets posted negative returns, also trailing their respective benchmarks, and international and emerging markets equities also posted negative performance for the year, trailing their benchmarks. In addition, the real estate fund showed positive returns of 9.5 percent even though it trailed the benchmark by 2.3 percent. The performance of the strategies in the Plans was mixed, trailing their respective benchmarks, with some exceptions.

It is helpful for perspective to look back at past years' performance numbers. In fiscal year 2006-2007, which was the last strong market prior to the great recession, 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 2006-2007, the portfolio returned 12.4 percent versus 11.4 percent for the custom index. Mercer Investment Group, our new investment consultant, and the University continue to believe that the current strategy is sound and will result in better returns in the future as the market continues to recover from its severe downturn in fiscal years 2007-2008 and 2008-2009. Per recommendations of Mercer Investment Group, the total equity allocation has been diversified with the addition of an Emerging Markets strategy, to achieve better risk-adjusted returns over time, and a Low Volatility strategy, to be able to weather downturns in the market much better than other capital strategies. The overall equity allocation remains unchanged. 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.

With the latest valuation, as of July 1, 2016, the total liability for the Retiree Health and Life Insurance Plans are now 87.6 percent funded which is down slightly from the July 1, 2015, valuation of 89.1 percent funded. Even with actuarial cost method changes, changes in mortality tables, and moderate market volatility, the plans remain well-funded.

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

The Statements of Net Position and the Statements of Changes in Net Position 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, 2016, 2015, and 2014:

Net Position
As of June 30, 2016, 2015, and 2014

	2016			2015		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Assets:						
Cash and Short Term Investments	$ 3,212,970	$ -	$ 3,212,970	$ 4,895,113	$ -	$ 4,895,113
Accounts Receivable	13,048,209	1,440,038	14,488,247	9,390,824	1,155,003	10,545,827
Investments	221,298,478	23,427,139	244,725,617	221,362,417	23,863,581	245,225,998
Total Assets	$ 237,559,657	$ 24,867,177	$ 262,426,834	$ 235,648,354	$ 25,018,584	$ 260,666,938
Liabilities	$ 823,043	$ 8,609	$ 831,652	$ 1,218,338	$ 7,914	$ 1,226,252
Net Position:						
Net Assets Held in Trust	$ 236,736,614	$ 24,858,568	$ 261,595,182	$ 234,430,016	$ 25,010,670	$ 259,440,686

	2014		
	Retiree Health Insurance	Retiree Life Insurance	Totals
Assets:			
Cash and Short Term Investments	$ 4,071,729	$ 20,908,237	$ 24,979,966
Accounts Receivable	6,363,021	880,430	7,243,451
Investments	213,905,347	2,533,238	216,438,585
Total Assets	$ 224,340,097	$ 24,321,905	$ 248,662,002
Liabilities	$ 1,348,893	$ 7,173	$ 1,356,066
Net Position:			
Net Assets Held in Trust	$ 222,991,204	$ 24,314,732	$ 247,305,936

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. Cash and Short Term Investments were higher at June 30, 2014, due to large cash money market holdings after the formation of the OPEB 115 Trust on April 1, 2014. Funds were held in money markets awaiting Investment Committee decisions as to future investments in the OPEB 115 Trust.

Accounts Receivable consists primarily of accrued interest, dividends and amounts received by Ball State University but not yet transferred to the retiree plans. An increase in premiums for both the retiree and employer resulted in an increase to this line item.

Investments include domestic fixed income, domestic large and small capitalization equities, international equities, core real estate, and municipal bonds. The amounts shown for fiscal year 2015-2016 decreased by 0.1 percent over the prior year due to market losses, and are recorded at fair value.

Liabilities are primarily benefits payable at year end. Incurred But Not Reported (IBNR) claims payable, as calculated by our Mercer actuarial study, have decreased since we changed our Third Party Administrator to Anthem for the medical plans on April 1, 2014. Since the change, the claims have been processed and paid on a more timely basis.

Net Assets Held in Trust represents the balances at year end in the VEBA and OPEB 115 Trusts, and the difference between the receivables from Ball State University and the retiree contributions versus the benefits payable and other liabilities. Net position grew by 0.1 percent in fiscal year 2015-2016 over the prior year.

The following is a summary of the contributions, investment income, and deductions resulting in the changes in net position for the years ended June 30, 2016, 2015, and 2014:

Change in Net Position-Condensed
Years Ended June 30, 2016, 2015, and 2014

	2016			2015		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	$ 3,115,598	$ 69,070	$ 3,184,668	$ 3,035,939	$ 67,805	$ 3,103,744
University Premiums	9,778,824	212,239	9,991,063	9,454,982	203,250	9,658,232
Total Premiums	$ 12,894,422	$ 281,309	$ 13,175,731	$ 12,490,921	$ 271,055	$ 12,761,976
Medicare Retiree Drug Subsidy/ Employer Group Waiver Program (EGWP)	665,709	-	665,709	849,926	-	849,926
Contributions to VEBA Trust and OPEB 115 Trust	1,631,568	681,712	2,313,280	-	1,105,682	1,105,682
Net Investment Income (Loss)	(3,401,575)	(63,386)	(3,464,961)	8,209,329	424,883	8,634,212
Benefits	(8,668,058)	(1,047,166)	(9,715,224)	(9,315,618)	(1,105,682)	(10,421,300)
Other Expenses	(815,468)	(4,571)	(820,039)	(795,746)	-	(795,746)
Net Increase (Decrease)	$ 2,306,598	$ (152,102)	$ 2,154,496	$ 11,438,812	$ 695,938	$ 12,134,750
Net Position Beginning of Year	234,430,016	25,010,670	259,440,686	222,991,204	24,314,732	247,305,936
Net Position End of Year	$ 236,736,614	$ 24,858,568	$ 261,595,182	$ 234,430,016	$ 25,010,670	$ 259,440,686

	2014		
	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	$ 2,776,870	$ 40,690	$ 2,817,560
University Premiums	8,738,941	124,414	8,863,355
Total Premiums	$ 11,515,811	$ 165,104	$ 11,680,915
Medicare Retiree Drug Subsidy/Employer Group Waiver Program EGWP	848,880	-	848,880
Contributions to VEBA Trust and OPEB 115 Trust	-	807,860	807,860
Net Investment Income	36,462,793	2,777,390	39,240,183
Benefits	(10,046,585)	(1,204,223)	(11,250,808)
Other Expenses	(343,822)	(44,867)	(388,689)
Net Increase	$ 38,437,077	$ 2,501,264	$ 40,938,341
Net Position Beginning of Year	184,554,127	21,813,468	206,367,595
Net Position End of Year	$ 222,991,204	$ 24,314,732	$ 247,305,936

Retiree Premiums and University Premiums reflect sharing of total premium cost per University policy. For Health Care, the fiscal year 2015-2016 University premium share remained essentially the same as the previous fiscal year 2014-2015, ranging from 71.0 percent to 89.0 percent, depending on the Health Plan. For fiscal year 2014-2015, the University premium share decreased slightly from the previous fiscal year 2013-2014, ranging from 71.1 percent to 89.0, depending on the Health Plan. For fiscal year 2013-2014, the University's premium share ranged from 71.1 percent to 90.1 percent. Premiums are paid into the University's health and life insurance accounts to help cover claims and administrative expenses.

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. For fiscal year 2015-2016, the subsidy amounts paid and accrued accurately reflect the amounts due the University for the fiscal year.

Beginning January 1, 2016, Ball State University terminated the Medicare Retiree Drug Subsidy program, and retirees at age 65 and over were enrolled in an Employer Group Waiver Program (EGWP) with Express Scripts. Retirees were enrolled in Medicare Part D, and proceeds from the EGWP program are remitted to Ball State University monthly, quarterly, and annually after the calendar year reconciliation has been completed. Savings from this program are expected to be substantially greater, as the Medicare Retiree Drug Subsidy proceeds were expected to decline in 2016 and subsequent years. For fiscal year 2015-2016, the EGWP amounts paid and accrued accurately reflect the amounts due the University for the fiscal year.

With regard to the contributions to the VEBA Trust and the OPEB 115 Trust, it is the University's policy to at least fund the plans equal to the total ARC each fiscal year. In years where additional funds might be available, the University may choose to contribute

funds to the trusts which would help to mitigate against future increase requirements. Since benefits paid in fiscal year 2014-2015 and fiscal year 2013-2014 on behalf of employees and their dependents exceeded the ARC, the University was not required to make a payment to the trusts, but planned to contribute any residual funds to the trusts after the reserves are adequately funded. Following this methodology, in fiscal year 2015-2016, the University contributed $1.6 million to the VEBA Trust. Contributions to the trust are partially used to reduce the receivable from the University in accordance with GASB Statement No. 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.

University employees who retire under the University's Early Retirement Program have in past years been given a choice to receive a cash payment in lieu of retiree life insurance. This payment, which amounted to 40.0 percent of the face value of the life insurance policy to which the retiree would be entitled, was traditionally 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. This cash settlement option to retirees was suspended after June 30, 2013 retirements, and substantially all of the payments due to early retirees selecting this option were paid on or before June 30, 2013, with the exception of the tax liability of benefits paid to early retirees. This tax liability was recorded as an expense at June 30, 2013, and was paid in fiscal year 2013-2014.

The University's consulting actuaries have determined that this payment constitutes a contribution to the OPEB 115 Trust, a payment of benefits, and a source of funding for the ARC. The tax portion of certain early retiree payments to be paid by the University, and paid in fiscal year 2013-2014, amounted to $306,761. As the cash payment option is no longer available, no payments were made in fiscal year 2014-2015 or fiscal year 2015-2016.

Deductions are almost entirely made up of insurance claims or insurance premiums paid, including the University's cash payments to early retirees in lieu of life insurance. Health insurance claims are paid out of the University's auxiliary health care plan. Historically, retiree life insurance death claims were paid out of the LICF (now OPEB 115 Trust). However, with the change to a fully funded life insurance plan with The Hartford, the premiums in fiscal year 2014-2015 were paid out of the University's auxiliary life insurance plan fund. Premiums in fiscal year 2015-2016, were paid partially from the University's auxiliary life insurance plan fund and partially from the OPEB 115 Trust**.** Going forward, the retiree and University's portion of retiree premiums will be paid from the OPEB 115 Trust when funding levels are insufficient in the University's auxiliary life insurance plan fund.

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

	2016	2015	2014
Domestic Large Capitalization Equities	32.2%	38.3%	38.4%
Domestic Small Capitalization Equities	8.9%	9.9%	9.9%
Low Volatility Equities	3.7%	-	-
International Equities	22.9%	25.5%	20.2%
Emerging Markets Equities	3.4%	-	-
Domestic Fixed Income (including short term)	17.5%	16.0%	22.9%
Real Estate Fund	11.4%	10.3%	8.6%
	100.0%	100.0%	100.0%

Domestic Fixed Income was lower than usual in fiscal years 2015-2016 and 2014-2015 as flat United States interest rates caused fixed income investments to be less desirable. As expectations of United States Federal Reserve restrictions on interest rates ease off, allocations to fixed income will be adjusted accordingly.

The asset allocation, which was approved by the Board of Trustees, reflects Mercer Investment Consultant'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 Mercer Investment Consultants on an ongoing basis and modified by the Investment Committee and approved by the Board of Trustees as needed.

For fiscal year 2015-2016, as previously noted, the combined portfolio generated overall loss of -1.2 percent, which put it in the 96th percentile (14th percentile in 2015, 3rd percentile in 2014) of Mercer Investment Consulting's predominantly VEBA and 401(h) plan universe, and underperformed the custom index calculated gain of 0.6 percent. The portfolio's policy objectives were met in fiscal years 2014-2015 and 2013-2014. 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 (former Investment Consultant's) Universe. The portfolio

met all of the policy objectives in 2007 and 2008, but fell below policy objectives beginning in 2009. The 2012-2013 fiscal year began to show signs of recovery. The fiscal year 2013-2014 performance was encouraging, but the economic climate is still volatile as shown with the weaker performance in fiscal years 2014-2015 and 2015-2016.

The worst performance for fiscal year 2015-2016 (net of fees) was turned in by Dodge and Cox International Fund, a negative 18.9 percent (99th percentile) versus a negative 10.2 percent for the MSCI AC World ex USA Index. The best performance relative to the benchmark and Mercer Universe was turned in by Alliance Bernstein US Strategic Core Equity, 14.4 percent (24th percentile) versus 4.0 percent for the S&P 500 Index.

The funds with the largest absolute return (net of fees) were Alliance Bernstein US Strategic Core Equity and UBS Trumbull Property Fund, returning 14.4 percent and 9.5 percent for the fiscal year (24th and 99th percentile, respectively) against similar returns by their benchmarks (S&P 500 Index and NCREIF-ODCE, respectively). Vanguard Institutional Index had similar results (4.0 percent, 18th percentile) meeting its benchmark (S&P 500). EuroPacific Growth placed in the 54th percentile with a return of negative 9.6 percent, outperforming the MSCI ACWI Ex USA Index. Vontobel Emerging Markets also outperformed the MSCI Emerging Markets Index, with a return of negative 2.2 percent (5th percentile).

The fiscal year 2015-2016 results when compared to the benchmarks were disappointing, with several of the managers underperforming their benchmarks. During the fiscal year, we terminated a large cap value stock separately managed account in the VEBA Trust, and, advised by Mercer Investment Consultants, made new investment allocations in a low volatility equity fund and an emerging markets equity fund. Investments in the OPEB 115 Trust remained unchanged during the fiscal year. Beginning in fiscal year 2012-2013, we were able to reestablish our real estate allocation with entry into the UBS Realty Investors Trumbull Property Fund, in both the VEBA and OPEB 115 Trusts. The University and Mercer Investment Consultants 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 Mercer Investment Consultants, 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. 45 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 OPEB 115 Trust as of the point in time when the AAL is calculated, in this case July 1, 2016. For health care, the $224,965,896 net assets in the VEBA Trust are compared to the AAL balance of $260,747,983, which results in an Unfunded AAL (UAAL) of $35,782,087, or a Funded Ratio of 86.3 percent under GASB Statement No. 43 rules. This contrasts with the year ended June 30, 2015, when the VEBA Trust net assets of $226,660,904 compared to the AAL balance of $259,673,454 and an Unfunded AAL (UAAL) of $33,012,550 and a Funded Ratio of 87.3 percent. The June 30, 2013, evaluation which consisted of $181,841,263 in net assets, an AAL balance of $203,498,679 yielding an Unfunded AAL of $21,657,416 or a Funded Ratio of only 89.4 percent. These two most recent studies have a lower funded percentage due primarily to the change in actuarial cost method and updated mortality rates. The volatile United States 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 2013 and 2015. However, the market had a downturn and the plan posted unrealized losses in 2016. The 2016 ratio of 86.3 percent continues to exceed the funding level of similar plans and is indicative of a secure plan. Since the UAAL amounts to 19.7 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 (now OPEB 115 Trust) for the fourth consecutive year since the University began requesting this calculation, resulting in a Funded Ratio of 102.9 percent in 2016, 110.5 percent in 2015, and 100.4 percent in 2013. When combined with the Health Care results, the total funded ratio becomes 87.6 percent in 2016, 89.1 percent in 2015, and 90.4 percent in 2013. To the extent possible, once the OPEB 115 Trust again achieves full funding, and without impairing the adequacy of the obligation for retiree life insurance, funds may 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 OPEB 115 Trust. In the case of health insurance, the actual contributions were above the ARC, resulting in a percentage contributed of 112.4 percent for fiscal year 2015-2016, 117.3 percent for fiscal year 2014-2015, and 101.2 percent for 2013-2014. In addition, the Medicare Retiree Drug Subsidy and the Employer Grant Waiver Program increased the contributions above the ARC each year. For life insurance, contributions consist of the total premiums paid to the third party life insurance company less the retirees' portion. In years prior to fiscal year 2013-2014, early retirees were given a cash payout option in lieu of life insurance. These cash payments were then included in the amount of contributions calculated for disclosure purposes. Fiscal year 2013-2014 was the final year affected by the cash payout option. The amount contributed to the life insurance plan for fiscal year 2013-2014 was 199.6 percent. Fiscal years 2014-2015 and 2015-2016 were 288.4 percent and 951.0 percent, respectively. This large contribution percentage is the result of moving to a fully insured life insurance plan for our retirees.

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 Gabriel, Roeder, Smith & Company assumes Ball State University retiree medical costs increasing as follows:

Year	Medical and Drug	Dental
2016	8.25%	4.50%
2017	7.75%	4.25%
2018	7.25%	4.00%
2019	6.75%	3.75%
2020	6.25%	3.50%
2021	5.75%	3.50%
2022	5.25%	3.50%
2023	4.75%	3.50%
2024	4.25%	3.50%
2025+	3.75%	3.50%

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 full effects of PPACA. Some early PPACA regulations, such as full health plan coverage for preventive care and increased age of dependents covered, were enacted in fiscal year 2013-2014.

The worst recession in decades may have officially ended in June 2009, but the effects are still being felt in the United States and across the globe. Fiscal years 2016, 2015, and 2014 still experienced tremendous volatility in the world markets. Since June 30, 2009, the investment markets have steadily improved, but are still weak. The United States' Gross Domestic Product (GDP) grew at a modest rate of 1.2 percent for the second quarter of 2016, which is the nineteenth of twenty quarters 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 begun showing signs of recovery. Loan defaults and foreclosures have slowed. The result has been continued slow economic growth in the United States and elsewhere. The United States' unemployment rate remains stubbornly at 5.0 percent (September 2016), although well below the peak of 10.1 percent in October 2009. Complicating the picture has been increased spending and borrowing and currency deflation 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

Ball State University
Retiree Health and Life Insurance Plans
Statements of Net Position
As of June 30, 2016 and 2015

	2016			2015		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
Assets:						
Current Assets:						
Cash and Short Term Investments	$ 3,212,970	$ -	$ 3,212,970	$ 4,895,113	$ -	$ 4,895,113
Receivables:						
Accrued Interest and Dividends	524,377	31,997	556,374	463,479	28,271	491,750
Retiree Contributions Receivable	108,655	2,357	111,012	141,827	2,845	144,672
Receivable from Ball State University	12,415,177	1,405,684	13,820,861	8,785,518	1,123,887	9,909,405
Total Receivables	$ 13,048,209	$ 1,440,038	$ 14,488,247	$ 9,390,824	$ 1,155,003	$ 10,545,827
Investments, at Fair Value:						
Fixed Income	$ 35,714,178	$ 5,303,563	$ 41,017,741	$ 33,050,881	$ 5,083,219	$ 38,134,100
Domestic Equity	110,231,122	8,043,647	118,274,769	118,961,409	-	118,961,409
International Equity	50,265,023	6,991,208	57,256,231	47,915,411	15,958,083	63,873,494
Real Estate Investments	25,088,155	3,088,721	28,176,876	21,434,716	2,822,279	24,256,995
Total Investments	$ 221,298,478	$ 23,427,139	$ 244,725,617	$ 221,362,417	$ 23,863,581	$ 245,225,998
Total Assets	$ 237,559,657	$ 24,867,177	$ 262,426,834	$ 235,648,354	$ 25,018,584	$ 260,666,938
Liabilities:						
Current Liabilities:						
Accrued Expenses and Other Liabilities	$ 119,825	$ 8,609	$ 128,434	$ 121,624	$ 7,914	$ 129,538
Benefits Payable	703,218	-	703,218	1,096,714	-	1,096,714
Total Liabilities	$ 823,043	$ 8,609	$ 831,652	$ 1,218,338	$ 7,914	$ 1,226,252
Net Position:						
Net Assets Held in Trust for Other Postemployment Benefits (OPEB)	$ 236,736,614	$ 24,858,568	$ 261,595,182	$ 234,430,016	$ 25,010,670	$ 259,440,686

See accompanying Notes to Financial Statements.

Ball State University
Retiree Health and Life Insurance Plans
Statements of Changes in Net Position
For the Year Ended June 30, 2016 and 2015

	2016			2015		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
Additions:						
Contributions:						
Retiree Premiums	$ 3,115,598	$ 69,070	$ 3,184,668	$ 3,035,939	$ 67,805	$ 3,103,744
Employer Matching Premiums	9,778,824	212,239	9,991,063	9,454,982	203,250	9,658,232
Medicare Retiree Drug Subsidy/ Employer Group Waiver Program (EGWP)	665,709	-	665,709	849,926	-	849,926
Ball State University Contributions to Fund	1,631,568	681,712	2,313,280	-	1,105,682	1,105,682
Total Contributions	$ 15,191,699	$ 963,021	$ 16,154,720	$ 13,340,847	$ 1,376,737	$ 14,717,584
Investment Income:						
Interest and Dividends from Investments	$ 5,742,857	$ 605,592	$ 6,348,449	$ 5,127,040	$ 600,316	$ 5,727,356
Net Gain/(Loss) from Sale of Investments	6,493,967	(35,669)	6,458,298	4,258,733	23,906	4,282,639
Unrealized Gains/(Losses) from Market Appreciation and (Depreciation)	(14,864,311)	(583,494)	(15,447,805)	(403,421)	(160,087)	(563,508)
Total Investment Income (Loss)	$ (2,627,487)	$ (13,571)	$ (2,641,058)	$ 8,982,352	$ 464,135	$ 9,446,487
Less Investment Expenses:						
Investment Custodial Fees	$ 90,564	$ 8,415	$ 98,979	$ 107,826	$ 8,671	$ 116,497
Investment Management Fees	617,788	41,400	659,188	588,551	30,581	619,132
Investment Consulting Fees	75,000	-	75,000	93,750	-	93,750
Other Investment (Income)/Expenses	(9,264)	-	(9,264)	(17,104)	-	(17,104)
Total Investment Expenses	$ 774,088	$ 49,815	$ 823,903	$ 773,023	$ 39,252	$ 812,275
Net Investment Income (Loss)	$ (3,401,575)	$ (63,386)	$ (3,464,961)	$ 8,209,329	$ 424,883	$ 8,634,212
Total Additions	$ 11,790,124	$ 899,635	$ 12,689,759	$ 21,550,176	$ 1,801,620	$ 23,351,796
Deductions:						
Benefits	$ 8,668,058	$ 1,047,166	$ 9,715,224	$ 9,315,618	$ 1,105,682	$ 10,421,300
Administrative Expenses	475,388	4,571	479,959	469,730	-	469,730
Actuarial Expenses, Bank Charges, and Audit Fees	340,080	-	340,080	326,016	-	326,016
Total Deductions	$ 9,483,526	$ 1,051,737	$ 10,535,263	$ 10,111,364	$ 1,105,682	$ 11,217,046
Net Increase (Decrease)	$ 2,306,598	$ (152,102)	$ 2,154,496	$ 11,438,812	$ 695,938	$ 12,134,750
Net Position:						
Beginning of Year	234,430,016	25,010,670	259,440,686	222,991,204	24,314,732	247,305,936
End of Year	$ 236,736,614	$ 24,858,568	$ 261,595,182	$ 234,430,016	$ 25,010,670	$ 259,440,686

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Ball State University
Retiree Health and Life Insurance Plans
Notes to Financial Statements
June 30, 2016 and 2015

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, both of which are using trusts to accumulate funding to ensure a continued benefit. Both of these trusts are considered trust funds of the University. 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. The Board of Trustees has the authority for establishing or amending benefit plan provisions.

Health insurance at Ball State University is a self-funded plan that utilizes third party administrators for health, dental, and prescription drug benefits. Each year, the Board of Trustees establishes premiums for the next calendar year, of which premiums paid by the employees and retirees range between 11.0 and 29.0 percent, depending on the health plan. The premiums paid by the University range between 71.0 and 89.0 percent. 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 (ARC) payment as calculated under GASB Statement No. 45.

Life insurance at Ball State University was purchased from CIGNA from July 1, 2013 – December 31, 2013, with premiums equal to actual claims plus a monthly administrative charge. On January 1, 2014, the University changed the third party administrator for life insurance to The Hartford, which provides a fully-funded insurance plan for both active and retired employees with premiums set at annual renewal. Ball State University accounts for the Life Insurance Plan in a manner similar to the Health Insurance Plan. Each year, The Hartford 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. The Hartford bills the University for monthly premiums. On occasion, excess funds in the OPEB 115 Trust are transferred to the VEBA Trust.

Basis of Accounting

The plans have adopted GASB Statement No. 72, *Fair Value Measurement and Application,* for the year ended June 30, 2016, with retrospective application. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. Additional fair value investment disclosures were required by this statement and can be found in Note B.

As required under these standards, the financial statements of the retiree plans are prepared using the economic resources measurement focus and the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plans.

Contributions and Benefits

Retiree premiums, related University match, and federal subsidy are recognized when due. Contributions to the VEBA and OPEB 115 Trusts 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 OPEB 115 Trust is exempt under Section 115(i).

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 and OPEB 115 Trusts. 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 and OPEB 115 Trusts are recognized when paid by the University. The Medicare Retiree Drug Subsidy and Employee Group Waiver Program (EGWP) are recognized in the period to which the subsidy pertains, with any unknown amounts estimated based on the amounts known, if possible. 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 Position

Net position is composed of the amounts on deposit in the VEBA and OPEB 115 Trusts at fair value on June 30, 2016, and amounts contained in the operating auxiliary health and life insurance accounts that have not been deposited with the VEBA and OPEB 115 Trusts as of June 30, 2016. For reporting purposes, both amounts are combined and reported as Net Position.

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. 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 core real estate fund is based on independent appraisals and internal valuations of recent acquisitions.

Fair Value Measurements

In accordance with GASB Statement No. 72, the Retiree Health and Life Insurance Plans categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The VEBA and OPEB 115 Trusts established to support the Retiree Health and Life Insurance Plans have assets that are valued using Level 1, Level 2 or Level 3 inputs. A Level 1 input is a quoted price for identical assets or labilities in an active market. Level 2 inputs consist of observable prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for asset or liability.

Level 3 are unobservable inputs. The plans' fair value measurements of reoccurring investments as of June 30, 2016, are presented below and on the following page.

Investments in Entities That Calculate Net Asset Value Per Share

The fair values of investments in real estate funds are based on the investments' net asset value (NAV) per share (or its equivalent) provided by the investee. Such fair values are included in the tables below.

Real Estate Funds: This type includes one open end fund during both fiscal years ended June 30, 2016, and 2015. The fund is an actively managed portfolio of primarily equity real estate investments located in the United States that seeks to provide attractive returns while limiting downside risk. The Fund's performance objective is to achieve at least a 5.0 percent real rate of return before management fees, over any given three-to-five year period. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can be redeemed at any time on a quarterly basis with a 60 day notice. The fund is generally designed to manage at a 20.0 percent maximum leverage ratio. There are no unfunded commitments in either year.

Global Equity Funds: This type includes one fund during the fiscal year ended June 30, 2016, that invests primarily in emerging markets. This fund is focused on the consistent returns through stable and predictable earnings and dividend growth over many years. Capital appreciation through investing in a diversified portfolio consisting primarily of equity securities. Equity securities consist of common stocks, such as warrants, rights, convertible bonds, debentures or convertible preferred stock. Under normal market conditions, the fund will invest at least 75.0 percent of its assets in equity securities issued by companies that are in "developing countries" or "emerging markets". There are currently no unfunded commitments to this fund. Redemptions may occur monthly with a 15 day notice.

Investments Measured at Fair Value

OPEB 115 Trust

		2016 Fair Value Measurements Using:		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Investments:				
Fixed Income Mutual Funds	$ 5,303,563	$ 5,303,563	$ -	$ -
Equity Mutual Funds	15,034,855	15,034,855	-	-
Total Investments at Fair Value Level	$ 20,338,418	$ 20,338,418	$ -	$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Limited Partnerships	$ 3,088,721			
Total Investments at Fair Value	$ 23,427,139			

		2015 Fair Value Measurements Using:		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Investments:				
Fixed Income Mutual Funds	$ 5,083,219	$ 5,083,219	$ -	$ -
Equity Mutual Funds	15,958,083	15,958,083	-	-
Total Investments at Fair Value Level	$ 21,041,302	$ 21,041,302	$ -	$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Limited Partnerships	$ 2,822,279			
Total Investments at Fair Value	$ 23,863,581			

Investments Measured at Fair Value
VEBA Trust

	June 30, 2016	2016 Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Investments:				
Open End Mutual Funds Equity	$ 101,357,716	$ 101,357,716	$ -	$ -
Asset Backed Obligations	2,776,070	-	2,776,070	-
Common Stocks	44,126,962	44,126,962	-	-
Corporate Bonds and Notes	6,921,952	-	6,921,952	-
Federal Agencies Bonds and Notes	530,084	-	530,084	-
Federal Agencies Collateralized Mortgage Obligation	6,349,882	-	6,349,882	-
Federal Agencies Discount	192,122	-	192,122	-
Federal Agencies Pass Through	3,998,323	-	3,998,323	-
Foreign Bonds	1,885,532	-	1,885,532	-
Foreign Govertment Obligations	25,144	-	25,144	-
Foreign Stocks	6,100,850	6,100,850	-	-
Government National Mortgage Assoication Pools	188,306	-	188,306	-
U.S. Treasury Bonds and Notes	12,116,837	-	12,116,837	-
U.S. Treasury Strips	1,162,452	-	1,162,452	-
Total Investments at Fair Value Level	$ 187,732,232	$ 151,585,528	$ 36,146,704	$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Limited Partnerships	$ 25,088,155			
Global Equity Limited Partnerships	8,478,091			
Total Investments at Net Asset Value (NAV)	33,566,246			
Total Investments at Fair Value	$ 221,298,478			

	June 30, 2015	2015 Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Investments:				
Open End Mutual Funds Equity	$ 118,102,763	$ 118,102,763	$ -	$ -
Asset Backed Obligations	1,551,983	-	1,551,983	-
Common Stocks	42,038,420	42,038,420	-	-
Corporate Bonds and Notes	5,290,443	-	5,290,443	-
Federal Agencies Bonds and Notes	499,703	-	499,703	-
Federal Agencies Collateralized Mortgage Obligation	6,868,830	-	6,868,830	-
Federal Agencies Discount	182,666	-	182,666	-
Federal Agencies Pass Through	4,584,599	-	4,584,599	-
Foreign Bonds	2,042,246	-	2,042,246	-
Foreign Govertment Obligations	25,836	-	25,836	-
Foreign Stocks	6,582,859	6,582,859	-	-
Government National Mortgage Association Pools	254,685	-	254,685	-
U.S. Treasury Bonds and Notes	9,995,109	-	9,995,109	-
U.S. Treasury Strips	1,907,559	-	1,907,559	-
Total Investments at Fair Value Level	$ 199,927,701	$ 166,724,042	$ 33,203,659	$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Limited Partnerships	$ 21,434,716			
Total Investments at Fair Value	$ 221,362,417			

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 OPEB 115 Trust 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. The plan does not have a custody credit risk policy for deposits. The uninsured, uncollateralized deposits in the custodial accounts were $2.6 million for fiscal year 2015-2016 and $4.4 million for fiscal year 2014-2015.

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 OPEB 115 Trust 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 also holds all OPEB 115 Trust investments in the name of the OPEB 115 Trust or its nominee, with the single exception of the UBS Trumbull Property Fund, the custodial credit risk exposure is minimal.

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 and OPEB 115 Trusts include 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 VEBA Trust as of June 30, 2016, and 2015. Fixed Income investments within the OPEB 115 Trust are entirely invested in an intermediate bond mutual fund, and therefore not included in the disclosure below:

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2016

	Federal Agencies				
Standard & Poor's	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Discount	Foreign Government Obligations
AAA	$ -	$ 3,998,323	$ 6,357,774	$ -	$ -
AA+	530,084	-	-	-	-
A+	-	-	-	-	25,144
AA-	-	-	-	192,122	-
Total	$ 530,084	$ 3,998,323	$ 6,357,774	$ 192,122	$ 25,144
Percent of All Fixed Income Assets	1.4%	10.3%	16.3%	0.5%	0.1%

	Corporate Bonds & Notes		Foreign Bonds		Asset Backed
Standard & Poor's	Short Term	Long Term	Short Term	Long Term	Obligations
AAA	$ -	$ -	$ -	$ 150,326	$ 1,270,570
AA+	-	291,292	-	-	81,895
AA	-	204,670	-	-	-
AA-	-	355,041	-	323,929	-
A+	49,298	312,390	85,252	372,490	349,195
A	77,380	1,539,773	85,582	381,386	111,186
A-	65,635	1,197,020	-	450,137	16,466
BBB+	-	1,889,019	-	207,264	-
BBB	85,767	462,247	-	-	-
BBB-	-	237,978	-	-	-
NR	-	-	-	-	1,073,510
Total	$ 278,080	$ 6,489,430	$ 170,834	$ 1,885,532	$ 2,902,822
Percent of All Fixed Income Assets	0.7%	16.7%	0.4%	4.8%	7.5%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2015

	Federal Agencies				
Standard & Poor's	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Discount	Foreign Government Obligations
AAA	$ -	$ 4,584,599	$ 6,868,853	$ -	$ -
AA+	499,703	-	-	-	-
A+	-	-	-	-	25,836
AA-	-	-	-	182,666	-
Total	$ 499,703	$ 4,584,599	$ 6,868,853	$ 182,666	$ 25,836
Percent of All Fixed Income Assets	1.3%	12.1%	18.1%	0.5%	0.1%

	Corporate Bonds & Notes		Foreign Bonds		Asset Backed
Standard & Poor's	Short Term	Long Term	Short Term	Long Term	Obligations
AAA	$ -	$ -	$ -	$ 149,766	$ 1,142,609
AA+	-	395,404	-	-	103,767
AA	-	196,903	-	66,708	-
AA-	-	270,134	-	396,222	-
A+	67,184	716,705	-	499,774	34,799
A	30,792	1,858,758	-	373,805	-
A-	114,710	1,245,475	35,510	449,736	20,407
BBB+	88,735	352,772	-	65,283	-
BBB	-	67,606	-	40,952	-
BBB-	-	33,909	-	-	-
NR	-	-	-	-	446,180
Total	$ 301,421	$ 5,137,666	$ 35,510	$ 2,042,246	$ 1,747,762
Percent of All Fixed Income Assets	0.8%	13.5%	0.1%	5.4%	4.6%

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. The VEBA Trust has no single issuer exposure that comprises five percent of the overall portfolio. At June 30, 2016, the OPEB 115 Trust had 22.6 percent of its portfolio invested in the JPMorgan Intermediate Bond Fund. Since the investment is a bond fund, the OPEB 115 Trust does not have discretion over the underlying investments. Our investment consultants feel that this allocation is appropriate for the long-term goals of the OPEB 115 Trust.

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 VEBA and OPEB 115 Trusts 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 OPEB 115 Trust 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.

The following tables list the effective weighted average duration of fixed income investments in the OPEB 115 and the VEBA Trusts at June 30, 2016, and 2015:

OPEB 115 Trust
Year Ended June 30, 2016

Fixed Income Security Type	Fair Value June 30, 2016	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	$ -	0.0%	-
Federal Agency Securities	$ -	0.0%	-
Corporate Bonds	$ -	0.0%	-
Mortgage Backed Securities	$ -	0.0%	-
Collateralized Mortgage Backed Securities	$ -	0.0%	-
Asset Backed Securities	$ -	0.0%	-
Cash and Money Market	$ -	0.0%	-
Intermediate Bond Trust Fund	$ 5,303,563	100.0%	-
		100.0%	

OPEB 115 Trust
Year Ended June 30, 2015

Fixed Income Security Type	Fair Value June 30, 2015	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	$ -	0.0%	-
Federal Agency Securities	$ -	0.0%	-
Corporate Bonds	$ -	0.0%	-
Mortgage Backed Securities	$ -	0.0%	-
Collateralized Mortgage Backed Securities	$ -	0.0%	-
Asset Backed Securities	$ -	0.0%	-
Cash and Money Market	$ -	0.0%	-
Intermediate Bond Trust Fund	$ 5,083,219	100.0%	-
		100.0%	

VEBA Trust
Year Ended June 30, 2016

Fixed Income Security Type	Fair Value June 30, 2016	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	$ 12,116,838	31.1%	5.0
U.S. Treasury Strips	$ 1,162,452	3.0%	3.9
Federal Agency Collateralized Mortgage Obligations	$ 6,357,774	16.3%	12.6
Federal Agency Pass Through	$ 3,998,323	10.3%	8.9
Federal Agency Bonds and Notes	$ 530,084	1.4%	5.6
Federal Agency Discount	$ 192,122	0.5%	3.3
Government National Mortgage Assoc Pools	$ 188,306	0.5%	17.6
Asset Backed Obligations	$ 2,902,822	7.5%	8.3
Foreign Bonds	$ 2,056,366	5.2%	3.7
Foreign Government Obligations	$ 25,144	0.1%	3.7
Corporate Bonds and Notes	$ 6,767,510	17.4%	4.4
Cash and Money Market	$ 2,629,408	6.7%	-
		100.0%	

VEBA Trust
Year Ended June 30, 2015

Fixed Income Security Type	Fair Value June 30, 2015	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	$ 9,995,108	26.3%	4.2
U.S. Treasury Strips	$ 1,907,559	5.0%	2.5
Federal Agency Collateralized Mortgage Obligations	$ 6,868,853	18.1%	13.2
Federal Agency Pass Through	$ 4,584,599	12.1%	9.3
Federal Agency Bonds and Notes	$ 499,703	1.3%	5.1
Federal Agency Discount	$ 182,666	0.5%	4.3
Government National Mortgage Assoc Pools	$ 254,685	0.7%	18.6
Asset Backed Obligations	$ 1,747,762	4.6%	12.5
Foreign Bonds	$ 2,077,756	5.5%	4.3
Foreign Government Obligations	$ 25,836	0.1%	4.7
Corporate Bonds and Notes	$ 5,439,087	14.3%	4.2
Cash and Money Market	$ 4,362,380	11.5%	-
		100.0%	

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 and OPEB 115 Trusts 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.

The following tables present the Foreign Currency Risk for the plan assets for the VEBA and OPEB 115 Trusts for the year ended June 30, 2016, and 2015:

Foreign Holdings
Funds Utilized in the VEBA Trust and OPEB 115 Trust
Year Ended June 30, 2016

Country	Currency	Fixed Income	Equities
Australia	Australian Dollar	$ -	$ 1,527,141
Austria	Euro	-	121,070
Belgium	Euro	-	305,359
Brazil	Real	-	1,512,352
Canada	Canadian Dollar	-	2,284,620
China	Renminbi	-	1,585,593
Denmark	Danish Krone	-	990,539
Finland	Euro	-	421,725
France	Euro	-	4,161,453
Germany	Euro	-	2,545,068
Greece	Euro	-	14,628
Hong Kong	Hong Kong Dollar	-	2,531,158
India	India Rupee	-	3,286,388
Indonesia	Rupiah	-	463,967
Ireland	Euro	-	243,978
Israel	New Shekel	-	$124,599
Italy	Euro	-	740,310
Japan	Yen	-	8,531,751
South Korea	Won	-	1,753,794
Luxembourg	Euro	-	150,769
Malaysia	Malaysian Ringgit	-	$84,781
Mexico	Mexican Peso	-	805,703
Netherlands	Euro	-	2,091,190
New Zealand	New Zealand Dollar	-	80,714
Norway	Norwegian Krone	-	109,970
Philippines	Peso	-	58,513
Portugal	Euro	-	40,357
Russia	Ruble	-	14,628
Singapore	Singapore Dollar	-	$337,776
South Africa	Rand	-	1,411,240
Spain	Euro	-	941,852
Sweden	Swedish Krona	-	958,936
Switzerland	Swiss Franc	-	4,654,290
Taiwan	New Taiwan Dollar	-	715,007
Thailand	Baht	-	351,566
Turkey	Turkish Lira	-	124,279
United Arab Emirates	Dirham	-	41,119
United Kingdom	Pound	-	6,829,678
Total		$ -	$ 52,947,863

Foreign Holdings
Funds Utilized in the VEBA Trust and OPEB 115 Trust
Year Ended June 30, 2015

Country	Currency	Fixed Income	Equities
Australia	Australian Dollar	$ -	$ 1,249,845
Austria	Euro	-	103,839
Belgium	Euro	-	292,631
Brazil	Real	-	865,134
Canada	Canadian Dollar	-	2,062,597
China	Renminbi	-	1,601,752
Denmark	Danish Krone	-	969,981
Finland	Euro	-	488,346
France	Euro	-	4,811,482
Germany	Euro	-	3,104,095
Hong Kong	Hong Kong Dollar	-	1,757,182
India	India Rupee	-	1,684,360
Indonesia	Rupiah	-	32,364
Ireland	Euro	-	588,006
Israel	New Shekel	-	103,839
Italy	Euro	-	1,235,340
Japan	Yen	-	9,760,882
South Korea	Won	-	1,136,151
Luxembourg	Euro	-	185,893
Mexico	Mexican Peso	-	387,968
Netherlands	Euro	-	1,921,521
New Zealand	New Zealand Dollar	-	59,337
Norway	Norwegian Krone	-	136,203
Philippines	Peso	-	48,546
Portugal	Euro	-	107,882
Russia	Ruble	-	113,273
Singapore	Singapore Dollar	-	204,712
South Africa	Rand	-	1,206,708
Spain	Euro	-	1,119,672
Sweden	Swedish Krona	-	1,063,652
Switzerland	Swiss Franc	-	5,708,049
Taiwan	New Taiwan Dollar	-	530,645
Thailand	Baht	-	318,935
Turkey	Turkish Lira	-	235,873
United Arab Emirates	Dirham	-	66,880
United Kingdom	Pound	-	9,070,127
Total		$ -	$ 54,333,702

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.

- Index U.S. Small Cap Growth Equity 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. Beginning with the July 1, 2015, actuarial liability study, the University utilizes the Entry Age Normal Cost Method to calculate the ARC which is an acceptable cost method under GASB Statements No. 43 and No. 45. Prior to the July 1, 2015 study, the University used the Projected Unit Credit Method. The Governmental Accounting Standards Board (GASB) approved two new accounting and financial reporting Statements regarding Other Postemployment Benefits (OPEB). Using the Entry Age Normal Cost Method is a requirement in the new statements which will become effective in future periods. The change in funding method resulted in an increase in accrued liability but a decrease in normal cost, resulting in a net decrease in the Annual Required Contribution. Under this method, Normal Cost equals the employee's present value of benefits divided by the employee's present value of future payroll at entry age. The minimum contribution is equal to the ARC minus actual benefits paid on behalf of retirees and dependents. Additional amounts may be contributed if available.

Note E – Description of Plans

The University's regular full-time employees may become eligible for retiree health and life insurance benefits upon attainment of age 62 with 15 years of services (and Health Plan participation). Eligible employees hired June 30, 2009, and prior may retire with health and life insurance benefits upon attainment of age 50 with 15 years of service (and Health Plan participation). Eligible employees hired August 31, 1999, and prior may also retire with health and life insurance benefits at the earlier of age 50 with 15 years of service or age 60 with ten years of service (and 12 months of Health Plan participation). Eligible full-time contract faculty (not on a semester-by-semester basis) may accumulate cumulative years of service instead of consecutive years of service. As of June 30, 2016, out of a total of 3,156 (3,193 in 2015) benefits eligible active employees, 786 (791 in 2015) had fulfilled the age and service requirements for these retiree benefits. As of June 30, 2016, there were 1,035 retired employees (1,033 in 2015) covered by retiree life insurance. Employees receiving benefits and who have successfully fulfilled the age and service requirements to qualify for retiree health and life insurance must enroll in the plan before they retire or are terminated. If the election is not requested at the time of retirement or termination, the employee will not be eligible to participate in the plans. There are no provisions for accepting late elections.

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 is optional. Spouses and dependents 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, 2016, retirees contributed $3.1 million ($3.0 million in 2015) in premiums for health care coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed $9.8 million ($9.7 million in 2015) as its 75.0 percent requirement. Retirees not eligible for Medicare were limited to one plan option in calendar year 2016, the High Deductible Wellness plan. Monthly premiums paid by retirees not eligible for Medicare ranged from $100.97 for single coverage to $262.16 for family coverage. Medicare-eligible retirees and spouses each paid $109.92 for medical and prescription drug coverage. Both non-Medicare and Medicare-eligible retirees and spouses paid $10.73 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 $125.0 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, up to a maximum of $37.5 thousand.

For the year ended June 30, 2016, retirees contributed $69.1 thousand ($67.8 thousand in 2015) in premiums for life insurance coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed $212.2 thousand ($203.2 thousand in 2015) as its 75.0 percent requirement. Retirees pay $.173 per $1,000 of coverage per month, which means the maximum monthly premium paid by retirees is $6.50.

Note F – Funded Status and Funding Progress

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

Schedule of Funding Progress

	Actuarial Valu-ation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Health	7/1/16	$ 224,965,896	$ 260,747,983	$ 35,782,087	86.3%	$ 181,818,904	19.7%
Life	7/1/16	23,246,027	22,593,209	(652,818)	102.9%	$ 181,818,904	-0.4%
Total		$ 248,211,923	$ 283,341,192	$ 35,129,269	87.6%	$ 181,818,904	19.3%
Health	7/1/15	$ 226,660,904	$ 259,673,454	$ 33,012,550	87.3%	$ 175,587,314	18.8%
Life	7/1/15	23,817,938	21,548,055	(2,269,883)	110.5%	$ 175,587,314	-1.3%
Total		$ 250,478,842	$ 281,221,509	$ 30,742,667	89.1%	$ 175,587,314	17.5%

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 Schedule 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 Schedule 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 or Employer Group Waiver Program in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 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, 2016
Acturial Cost Method	Entry age normal
Amortization Method	Level percent of payroll over a 30-year closed period (closed basis) with 21 remaining years at July 1, 2016
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.0% per year compounded annually
Payroll Growth Rate	3.5% per year compounded annually
Healthcare Cost Trend Rates:	
Medical and Drug	8.25% initial / 3.50% ultimate (not applicable to Life)
Dental	4.50% initial / 3.50% ultimate

Ball State University
Retiree Health and Life Insurance Plans
Required Supplemental Information
June 30, 2016

Schedule of Funding Progress

	Actuarial Valu-ation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Health	7/1/16	$ 224,965,896	$ 260,747,983	$ 35,782,087	86.3%	$ 181,818,904	19.7%
Life	7/1/16	23,246,027	22,593,209	(652,818)	102.9%	$ 181,818,904	-0.4%
Total		$ 248,211,923	$ 283,341,192	$ 35,129,269	87.6%	$ 181,818,904	19.3%
Health	7/1/15	$ 226,660,904	$ 259,673,454	$ 33,012,550	87.3%	$ 175,587,314	18.8%
Life	7/1/15	23,817,938	21,548,055	(2,269,883)	110.5%	$ 175,587,314	-1.3%
Total		$ 250,478,842	$ 281,221,509	$ 30,742,667	89.1%	$ 175,587,314	17.5%
Health	7/1/13	$ 181,841,263	$ 203,498,679	$ 21,657,416	89.4%	$ 161,541,171	13.4%
Life	7/1/13	21,672,127	21,579,195	(92,932)	100.4%	$ 161,541,171	-0.1%
Total		$ 203,513,390	$ 225,077,874	$ 21,564,484	90.4%	$ 161,541,171	13.3%

Schedule of Contributions from University and Other Entities

Year Ended June 30	Health Care: Annual Required Contribution	Health Care: Percentage Contributed	Health Care: Federal Subsidy	Health Care: Total Percentage Contributed	Life Insurance: Annual Required Contribution	Life Insurance: Percentage Contributed
2016	$ 8,249,047	112.4%	$ 665,709	120.4%	$ 112,511	951.0%
2015	$ 6,996,792	117.3%	$ 849,926	129.5%	$ 349,562	288.0%
2014	$ 8,547,981	101.2%	$ 848,880	111.1%	$ 467,051	199.6%
2013	$ 7,543,653	106.0%	$ 927,849	118.3%	$ 584,390	194.2%
2012	$ 6,751,195	118.0%	$ 665,202	127.8%	$ 446,152	83.3%

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