

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2009

RETIREE HEALTH AND LIFE INSURANCE PLANS



B A L L S T A T E
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MUNCIE, INDIANA

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To

The President and Board of Trustees

Ball State University

This financial report presents

the financial position of the

Ball State University

Retiree Health & Life Insurance Plans

at June 30, 2009,

and the results of activities for

the year then ended.

Randall B. Howard

Vice President for Business Affairs
and Treasurer

October 1, 2010

Ball State University

2008-2009

Frank A. Bracken, Indianapolis, IN

Thomas L. DeWeese, Muncie, IN

Marianne Glick, Indianapolis, IN

Frank Hancock, Indianapolis, IN

Richard Hall, Carmel, IN

Hollis E. Hughes Jr., South Bend, IN

Matthew Momper, Fort Wayne, IN

Barbara Phillips, Carmel, IN

Kellie Conrad, Indianapolis, IN
(completed term July 7, 2009)

Nicole M. Vauter, Hebron, IN
(appointed July 8, 2009)

Officers

Thomas L. DeWeese..... President
Frank A. Bracken Vice President
Hollis E. Hughes Jr. Secretary
Richard Hall ... Assistant Secretary
Thomas J. Kinghorn(completed term June 30, 2009) Treasurer
Randall B. Howard (appointed May 14, 2009; Effective July 1, 2009) Treasurer

University President

Jo Ann M. Gora

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Independent Auditor's Report

The Board of Trustees of
Ball State University
Muncie, Indiana

We have audited the accompanying statements of plan net assets of the Retiree Health and Life Insurance Plans of Ball State University (the Plans) as of June 30, 2009 and June 30, 2008, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2009 and June 30, 2008, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2010, on our consideration of the Plans' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

Indianapolis, Indiana
September 20, 2010

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Ball State University
Retiree Health and Life Insurance Plans
Management's Discussion and Analysis
June 30, 2009 and 2008

Introduction and Overview

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education located in Muncie, Indiana. As of the beginning of the 2008-2009 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,839 full-time and 475 part-time personnel, whereas in 2007-2008 there were 2,819 full-time and 452 part-time personnel and 2,771 full-time and 327 part-time in 2006-2007.

Full-time regular employees of the University are eligible to receive a variety of employee benefits, including vacation, sick leave, short and long term disability insurance, health, life, and accidental death and dismemberment insurance, pension benefits, and fee waivers for employees, spouses and dependants. For the 2009 fiscal year, the University recorded benefits of \$68.3 million, plus a \$17.7 million estimated value for vacation and sick leave benefits whose usage would be included in payroll, for a total of \$85.9 million. The \$68.3 million includes \$25.9 million in health insurance for active employees, \$18.6 million in pension contributions, \$12.5 million of employer matching payments to Social Security and Medicare, and \$7.5 million in health insurance for current retirees. The University pays 100.0 percent of the required contributions to pension plans and 75.0 percent of the premiums for the various insurance plans. 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 50 or 10 years at age 60 for those hired before September 1, 1999). As of June 30, 2009, 936 retired employees (1,002 as of June 30, 2008, and 975 as of June 30, 2007) were covered by retiree life insurance, while 1,679 retired employees, spouses and surviving spouses (1,680 as of June 30, 2008, and 1,336 as of 2007) were covered by retiree health insurance. In addition, 896 active employees (875 in 2008 and 850 in 2007) had fulfilled the age and service requirements for these benefits as of that date. These retiree benefits have been part of the University's benefit programs since 1949 (life insurance) and 1952 (health insurance). As this report will show, the overall financial strength of these programs is excellent and is a strong indicator of continued coverage for the foreseeable future. This is due in large part to the establishment of the Life Insurance Continuance Fund (LICF) and the VEBA Trust to help fund future retiree benefits.

The VEBA Trust, the larger of the two funds, was established to finance the cost of retiree health care. In equilibrium, when the VEBA Trust balance equals the actuarial liability for retiree health care, it would cover 75.0 percent of the total cost of retiree health care, with the remaining 25.0 percent of the cost continuing to be paid 25.0 percent by the retiree and 75.0 percent by the University. Of course the percentage of the liability funded is subject to significant volatility in both the numerator (value of the investments) and the denominator (actuarial liability). While the University will continue to recognize the annual cost of prefunding their share of the retiree health care benefit over the course of their employees' careers, the earnings from the VEBA Trust help to offset a portion of this cost. Since the liability, as calculated under Governmental Accounting Standards Board (GASB) Statement No. 43 rules, is funded 59.4 percent as of the most recent valuation date of July 1, 2009, the VEBA Trust is already beginning to defray a portion of the health care premiums for retirees and employees, as well as the University. In other words, because of this funding level, total premiums are lower than they would be otherwise.

Ball State University is not unusual in offering retiree health benefits. A 2007 survey by the AAUP, financed by the TIAA-CREF Institute, revealed that 82.0 percent of colleges and universities who responded to the survey offered retiree health care as a benefit. In addition, a Kaiser Family Foundation survey in 2007 indicated that 98.0 percent of state and local governments surveyed offered retiree health care benefits to early retirees, and 81.0 percent offered these benefits to Medicare-eligible retirees.

Management's Discussion and Analysis

Employer-provided retiree health insurance is a significant benefit for retirees. While the federal government provides the major health coverage for retirees age 65 and above, there are still significant out-of-pocket costs not paid by Medicare, such as deductibles, co-pays, dental expenses, and prescription drugs (even with the addition of Medicare Part D drug coverage). In 2004, Mercer stated in a report entitled "Retiree Health Care: Today and Tomorrow," that "a fully subsidized employer-sponsored retiree health care program is worth about 6.8 percent of pay contributed to a savings program over a career." Periodically, the news media reports the results of various studies by, for example, Fidelity Investments and the Employee Benefits Research Institute, which attempt to estimate the amount of savings at retirement age needed for health care costs, over and above that deemed necessary for maintenance of a current standard of living. These amounts, depending upon the assumptions used, are always expressed in hundreds of thousands of dollars, which is not surprising considering the number of health issues typically encountered by senior citizens. This is important to consider because the broad social implications of having an increasing population demographic unprepared to finance these obligations must be addressed by leadership in all sectors.

For the years ended June 30, 2009, 2008, and 2007, the cost to Ball State University of health care for all current retirees, spouses, and surviving spouses was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Insurance Claims Administration	\$ 9,539,088	\$ 8,806,478	\$ 8,304,650
	183,556	213,301	188,521
Total	<u>\$ 9,722,644</u>	<u>\$ 9,019,779</u>	<u>\$ 8,493,171</u>
Less:			
Retiree Premiums	\$ 2,263,383	\$ 2,459,689	\$ 2,436,737
Amount included in Benefits Expense	7,459,261	6,560,090	6,056,434
Less:			
Medicare Retiree Drug Subsidy	1,000,928	968,156	836,322
Net Cost of Benefit to University	<u>\$ 6,458,333</u>	<u>\$ 5,591,934</u>	<u>\$ 5,220,112</u>

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

For this period, retiree health care as calculated above amounted to 7.5 percent of total estimated benefits (seven percent in 2008, 6.9 percent in 2007), while pension contributions made by the University amounted to 21.7 percent (22.3 percent in 2008, 22.0 percent in 2007), and the employer portion of Social Security and Medicare amounted to 14.5 percent (15.0 percent in 2008, 15.1 percent in 2007). Taken together, 43.7 percent (44.3 percent in 2008, 44.0 percent in 2007) of total estimated benefits were for retirement purposes. Retiree life insurance, since it is totally paid from the LICF, was not reflected in the University's benefit expense.

Funding Strategy

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

During this time, contributions were made to the VEBA Trust from the University's self-insured health care plan, other benefits accounts, and, on occasion, the LICF. In 2004, the Governmental Accounting Standards Board issued Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which took effect for Ball State University during fiscal year 2006-2007, and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which takes 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 Annual Required

Contribution (ARC), as defined in these statements. In addition, funds available over and above the calculated contribution required are contributed to the VEBA Trust in order to bring the funding status closer to the calculated actuarial liability. As of June 30, 2009, the 1.0 million contributed to the VEBA Trust during the year brought the total University contributions from date of inception to \$62.9 million, while the \$29.7 million investment loss for the year brings to \$45.8 million net dividends, interest and realized and unrealized investment gains and losses inception to date. In addition, to date transfers from LICF of \$9.4 million and withdrawals of \$4.0 million for claims were unchanged from the previous year.

The most recent actuarial projection of the retiree health care liability dated July 1, 2009, when compared to the VEBA Trust established to fund this liability, revealed that the liability is now 59.4 percent funded under GASB rules. This is lower than the 86.6 percent funding level recorded in 2007, the date of the previous projection, and reflects the lower balance in the VEBA Trust due to investment losses suffered over the past two years (the investment results will be discussed in greater detail later in this report). As a result, the ARC, as calculated by the actuaries, is now slightly higher than the health insurance claims paid by the University, although the Medicare Retiree Drug Subsidy more than covered the shortfall in 2009, so the University was able to extend its record of fully-funding the ARC each year. Because of this, premiums to be paid by Ball State University employees and retirees did not have to be increased more than expected for the fiscal year beginning July 1, 2009. In other words, the well-funded VEBA Trust is resulting in lower premiums than would have been expected for active employees, retirees and spouses, and the University, given the adverse investment results experienced.

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

Using this Report

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

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

Financial Highlights

Following the decline in the financial position of the Retiree Health and Life Insurance Plans in fiscal year 2008, which was due primarily to the disappointing eight percent investment losses during that period versus the 18.0 percent gain realized in 2007, the markets continued to decline for nearly nine more months before finally turning around in the latter part of March, 2009. The total portfolio had investment losses of 21.8 percent for the fiscal year. When compared to a "blended benchmark" reflecting the diversity of the portfolio and consisting of the Russell 1000 Value Index, the S&P 500 Index, the MSCI EAFE Index, the MSCI AC World Index ex-U.S., the Russell 2000 Value Index, the Russell 2000 Growth Index, the NCREIF Index, the BCGC Intermediate Bond Index, and the BC Aggregate Index, the blended benchmark, which recorded a loss of nine percent in 2008 and a gain of 17.9 percent in 2007, recorded a loss of 19.4 percent, due primarily to the overall weakness in the stock market and commercial real estate market.

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

endowment or foundation portfolio, due to the greater flexibility of the endowments and foundations to control their commitments.

When the returns were compared to the "Hewitt Composite Funds Universe," which consists of 107 pension plans, endowments, foundations and other not-for-profit institutional asset pools, with assets totaling \$23.6 billion, the average loss was 5.2 percent less than the Retiree Health and Life Insurance portfolios. In 2008, the benchmark loss was 2.9 percent less than the portfolio, and in 2007 the benchmark gain was 1.1 percent less than the portfolio. Defined benefit pension plans represent 73.0 percent of the assets of this universe. When compared to the NACUBO (National Association of College and University Business Officers) Endowment Study for the same time period, the NACUBO average for endowments of \$50.0 million to \$100.0 million was a loss of 18.6 percent (3.2 percent loss in 2008, 16.7 percent gain in 2007) and 19.7 percent for endowments of \$100.0 million to \$500.0 million (2.9 percent in 2008, 18.0 percent gain in 2007). The underperformance of the Retiree Health and Life Insurance portfolios as compared to these benchmarks is not unexpected given the financial environment and difference in risk profiles. While some of the underperformance may be attributed to investment selection, a portion can be attributed to the portfolio's 70.0 percent allocation to equities vs. the typical pension plan's allocation of 60.0 percent or less, with most of the balance invested in less volatile fixed income. For the fiscal year, fixed income benchmarks had positive earnings while all equity benchmarks were negative.

While the one-year results were disappointing, it should be noted that the investment policy for the VEBA and the LICF focuses on a five-year horizon, with the expectation that the annualized total return will exceed a customized index made up of the various sector indexes for the various sectors in the asset allocation policy, as well as rank in the top 50.0 percent of a total pension fund universe. Over the past five years, the combined portfolio returned 1.0 percent, vs. 0.9 percent for the customized index. During that same time period, endowments of \$50.0 million to \$100.0 million returned 2.7 percent, and endowments of \$100.0 million to \$500.0 million returned 2.6 percent. Sectors which tended to hurt the portfolio's performance were large cap value equity and real estate. Large cap value equity managers did not perform as well as large cap core or large cap growth, and the portfolio's large cap value manager performed worse than the benchmark. With regard to the portfolio's investment in real estate, the return, though positive, was much lower than the benchmark.

Prior to fiscal year 2009, the five-year results were respectable when compared to the various benchmarks. For example, in fiscal year 2008, the portfolio's return exceeded every benchmark but endowments of \$100.0 million to \$500.0 million. During 2009, the Investment Committee took several actions, including reallocating five percent from the domestic large cap value manager to the S&P 500 Index fund, investing REIT dividends in fixed income rather than reinvesting in the REIT, filing a written request to liquidate the REIT investment, and increasing by 2.5 percent the allocation to the portfolio's small cap value manager, whose performance met all objectives for the five-year period.

Actuarial liability valuations are performed every two years, and the latest valuation, as of July 1, 2009, revealed that the total liability for the Retiree Health and Life Insurance Plan is now 61.5 percent funded, vs. 91.2 percent funded according to the calculations performed as of July 1, 2007. The decline in funding is overwhelmingly due to the adverse experience in the investment markets over the two-year time period. Nevertheless, the funding percentage still places the Plan among the best-funded.

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

The Statements of Net Assets and the Statements of Changes in Net Assets report in summary fashion the financial position of the individual plans and the total of the two plans, as well as the detail of 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, 2009, 2008, and 2007.

		Net Assets					
		June 30, 2009, 2008, and 2007					
		2009			2008		
		Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Assets:							
Cash and Short Term Investments	\$	2,903,508	325,481	3,228,989	9,363,050	448,466	9,811,516
Accounts Receivable		3,152,170	429,246	3,581,416	4,572,899	423,820	4,996,719
Investments		111,052,211	16,239,570	127,291,781	132,498,802	21,739,991	154,238,793
Total Assets	\$	117,107,889	16,994,297	134,102,186	146,434,751	22,612,277	169,047,028
Liabilities							
	\$	935,821	365,028	1,300,849	756,567	155,750	912,317
Net Assets:							
Trust	\$	114,147,732	16,606,896	130,754,628	142,837,134	22,321,203	165,158,337
Other		2,024,336	22,373	2,046,709	2,841,050	135,324	2,976,374
Total Net Assets	\$	116,172,068	16,629,269	132,801,337	145,678,184	22,456,527	168,134,711
		2007					
		Retiree Health Insurance	Retiree Life Insurance	Totals			
Assets:							
Cash and Short Term Investments	\$	5,560,261	185,011	5,745,272			
Accounts Receivable		3,408,912	348,908	3,757,820			
Investments		142,717,721	25,317,740	168,035,461			
Total Assets	\$	151,686,894	25,851,659	177,538,553			
Liabilities							
	\$	718,365	380,844	1,099,209			
Net Assets:							
Trust	\$	148,827,822	25,502,751	174,330,573			
Other		2,140,707	(31,936)	2,108,771			
Total Net Assets	\$	150,968,529	25,470,815	176,439,344			

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. These were significantly lower in 2009 and 2007 due to large contributions to the VEBA Trust in 2008 which occurred late in June of that year.

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

Investments include domestic fixed income, domestic large and small capitalization equities, international equities, private closed-end Real Estate Investment Trust, and municipal bonds. The amounts shown are at fair value. Although domestic fixed income had positive returns for all three years, the ending balance is lower in 2009 due to transfers of funds for rebalancing purposes.

Liabilities are primarily benefits payable at year end.

Net Assets – Trust represents the balances at year end in the VEBA Trust and the LICF.

Net Assets – Other reflects activity taking place outside the VEBA Trust and the LICF. For Health Care, it reflects the difference between the receivables from Ball State University and the retiree contributions versus the benefits payable and other liabilities. The lower receivable from Ball State University accounts for the decrease.

Management's Discussion and Analysis

The following is a summary of the contributions, investment income, and deductions resulting in the changes in net assets for the years ended June 30, 2009, 2008, and 2007.

<u>Change in Net Assets-Condensed</u>						
Year Ended June 30, 2009, 2008, and 2007						
	2009			2008		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	\$ 2,263,383	\$ 23,595	\$ 2,286,978	\$ 2,459,689	\$ 22,575	\$ 2,482,264
University Premiums	6,790,396	72,732	6,863,128	7,562,021	67,727	7,629,748
Total Premiums	\$ 9,053,779	\$ 96,327	\$ 9,150,106	\$ 10,021,710	\$ 90,302	\$ 10,112,012
Medicare Retiree Drug Subsidy	1,000,928	-	1,000,928	968,156	-	968,156
Contributions to VEBA and LICF	-	326,000	326,000	5,000,000	344,300	5,344,300
Net Investment Income	(29,747,438)	(5,280,759)	(35,028,197)	(12,039,686)	(2,276,232)	(14,315,918)
Benefits	(9,539,088)	(968,826)	(10,507,914)	(8,806,478)	(1,172,628)	(9,979,136)
Other Expenses	(274,297)	-	(274,297)	(434,047)	-	(434,047)
Increase in Net Assets	\$ (29,506,116)	\$ (5,827,258)	\$ (35,333,374)	\$ (5,290,345)	\$ (3,014,258)	\$ (8,304,633)
Net Assets Beginning of Year	145,678,184	22,456,527	168,134,711	150,968,529	25,470,815	176,439,344
Net Assets End of Year	\$ 116,172,068	\$ 16,629,269	\$ 132,801,337	\$ 145,678,184	\$ 22,456,557	\$ 168,134,711

2007						
	Retiree Health Insurance	Retiree Life Insurance	Totals			
	Retiree Premiums	\$ 2,436,737	\$ 25,528	\$ 2,462,265		
University Premiums	7,313,768	76,584	7,390,352			
Total Premiums	\$ 9,750,505	\$ 102,112	\$ 9,852,617			
Medicare Retiree Drug Subsidy	836,322	-	836,322			
Contributions to VEBA Trust	1,401,000	-	1,401,000			
Net Investment Income	21,723,104	3,919,758	25,642,862			
Benefits	(8,304,650)	(1,079,695)	(9,384,345)			
Other Expenses	(283,874)	-	(283,874)			
Increase in Net Assets	\$ 25,122,407	\$ 2,942,175	\$ 28,064,582			
Net Assets Beginning of Year	125,846,122	22,528,640	148,374,762			
Net Assets End of Year	\$ 150,968,529	\$ 25,470,815	\$ 176,439,344			

Retiree Premiums and University Premiums reflect the 25.0 percent-75.0 percent sharing of total premium per University policy. These premiums are paid into the University's health and life insurance accounts to help cover claims and administrative expenses.

The 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 is at least actuarially equivalent to the benefit under Medicare Part D. As a result, Ball State University retirees covered by the University's retiree health care plan do not enroll in Medicare Part D. This subsidy recognizes savings incurred by the Medicare program as a result. The amount is utilized to offset a portion of retiree and University shares of the premiums for Medicare eligible retirees.

With regard to the Contributions to the VEBA Trust and the LICF, it is the University's policy to at least fund the total ARC each fiscal year. In years where additional funds might be available, the University may choose to contribute more than the ARC, to mitigate against future increase requirements. In 2007, the University's contribution of \$1.4 million was the estimated amount necessary to fund the ARC. The University chose to contribute \$6.0 million to the VEBA (\$1.0 million of which was used to reduce the receivable from the University) for the previous year ended June 30, 2008. In accordance with GASB 45, which took effect in 2008, the entire \$6.0 million was reported as a prepaid expense of the University toward the funding of the retiree health care liability. In the current year, \$1.0 million was contributed to the VEBA Trust, all of which was used here to reduce the receivable from the University.

University employees who retire under the University's Early Retirement Program may choose to receive a cash payment in lieu of retiree life insurance. This payment, which amounts to 40.0 percent of the face value of the life insurance policy to which the retiree would be entitled, is paid by the University in two equal installments on January 31 of the calendar year following the calendar year in which retirement takes place and the next succeeding January 31. The University's consulting actuaries have determined that this payment constitutes a contribution to the LICF, a payment of benefits, and a source of funding for the ARC. For the year ended June 30, 2009, this payment totaled \$326,000, and for the years ended June 30, 2008, and June 30, 2007, the payments totaled \$344,300 and \$288,700 respectively.

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

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

	2009	2008	2007
Domestic Large Capitalization Equities	44.9%	43.1 %	49.7%
Domestic Small Capitalization Equities	10.1%	10.3 %	10.5%
International Equities	14.7%	14.7 %	10.2%
Private Closed-End Real Estate Investment Trust (REIT)	10.1%	11.2 %	9.6%
Domestic Fixed Income (including short term)	20.2%	20.7 %	20.0%

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

For the fiscal year, as previously noted, the combined portfolio generated a disappointing overall loss of 21.8 percent, which put it in the 92nd percentile (87th percentile in 2008, 25th percentile in 2007) of Hewitt's predominantly pension fund universe, and exceeded the custom index calculated loss of 19.4 percent. More disappointing was the fact that the portfolios' policy objectives were not entirely met, since the annualized returns for the past five years placed it in the lower half (top 34.0 percent in 2008, top 11.0 percent in 2007) of the Hewitt universe of primarily pension funds, even though the overall return slightly exceeded the calculated return of the customized index. The one-year and five-year results are related, since as recently as fiscal year 2008, the five-year results met all of the policy objectives, as did the 2007 results.

The only positive returns in the portfolio for the fiscal year were the fixed income funds. J.P. Morgan Intermediate Bond Separate Account (VEBA) returned 7.5 percent, which was better than its benchmark, while J.P. Morgan Mid-Institutional Core Bond (the successor to the Bear Stearns Bond) Separate Account returned 1.6 percent, which was not as good as its benchmark. It should be noted 2009 was the transition year for the Mid-Institutional Core Bond Separate Account. It is anticipated that 2010 will provide a fairer measure of the performance of this account.

Of the investment managers and investment products reporting losses, the best relative performances were turned in by the International Equity Funds, Dodge & Cox International and American Funds Europacific Growth, whose losses were less than their benchmarks and less than most of the international investment products in the Hewitt Universe, and CRM Small Cap Value fund, whose loss was also less than its benchmark and most of the small cap value investment products in the Hewitt Universe. Dodge & Cox Separate Account lost slightly less than its benchmark, but more than most of the large cap value products in the Hewitt Universe. During the year, the allocation to Dodge & Cox, which had produced superior returns for most of the decade, was reduced by five percent and reinvested in the Vanguard Institutional Index Fund, whose performance was two percent better for the year. The allocation to CRM Small Cap Value was also increased by 2.5 percent during the year to take advantage of its superior performance.

RREEF America REIT II returned a loss that was greater than the benchmark and greater than over half of the Hewitt Universe. During the year, RREEF was notified, first, that dividends were to be paid out rather than reinvested, and, second, that the Plans wanted to withdraw the entire investment. Due to the relatively illiquid nature of its investments, requests for withdrawal of investment funds were put into a queue for satisfaction as funds became available. None of the investment had been returned as of June 30, 2009.

While the 2009 results were unsatisfactory and resulted in some reallocations as described above, the University and Hewitt Investment Group believe that the remaining investments are desirable and their long-term performance will eventually exceed the University's objectives. As it periodically does, the University, with the assistance of

Hewitt Investment Group, is reviewing its overall asset allocation strategy and considering the inclusion of additional investment strategies or managers within the existing strategies.

Required Supplemental Information

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

Schedules of Funding Progress

The Schedules of Funding Progress compare the Actuarial Accrued Liability (AAL) to the assets accumulated in the VEBA Trust and the LICF as of the point in time when the AAL is calculated, in this case July 1, 2009. For health care, the \$114,147,732 net assets in the VEBA Trust are compared to the AAL balance of \$192,195,650, which results in an Unfunded AAL (UAAL) of \$78,047,918, or a Funded Ratio of 59.4 percent under GASB Statement No. 43 rules. This contrasts with the year ended June 30, 2007, when the VEBA Trust net assets of \$148,827,822 compared to the AAL balance of \$171,887,451 and an Unfunded AAL (UAAL) of \$23,059,629 and a Funded Ratio of 86.6 percent. As anticipated, the volatile U.S. and world economies have had an effect on the VEBA Trust as unrealized losses from market depreciation. However, the 2009 ratio of 59.4 percent still exceeds the funding level of similar plans sponsored by at least 46 states, according to the Pew Center for the States. Since the UAAL amounts to 51.6 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 exceeds the assets in the LICF for the first time since the University began requesting this calculation, resulting in a Funded Ratio of 82.1 percent. When combined with the Health Care results, the total funded ratio becomes 61.5 percent. To the extent possible, once the LICF again achieves full funding, and without impairing the adequacy of the LICF, funds will likely be transferred to the VEBA Trust, as has happened on occasion in the past, to help with funding for retiree health insurance.

Schedules of Contributions from University and Other Entities

These schedules compare actual contributions to the Annual Required Contribution (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 and/or the LICF. In the case of health insurance, the actual contributions exceeded the ARC, resulting in a percentage contributed of 116.9 percent. In addition, the Medicare Retiree Drug Subsidy increased the contributions to 130.0 percent. For life insurance, contributions were made as cash payments to early retirees in lieu of life insurance, which resulted in 214.3 percent of the ARC being contributed in 2009.

Economic Factors That Will Affect the Future

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

Year	Pre-65 Medical	Post-65 Medical	Drugs	Dental	Administration
2009	8.00%	7.00%	8.00%	5.00%	4.00%
2010	7.80%	6.90%	7.80%	5.00%	4.00%
2011	7.60%	6.90%	7.60%	5.00%	4.00%
2012	7.40%	6.80%	7.40%	5.00%	4.00%
2013	7.20%	6.80%	7.20%	5.00%	4.00%
2014	7.00%	6.70%	7.00%	5.00%	4.00%
2015	6.80%	6.60%	6.80%	5.00%	4.00%
2016	6.60%	6.60%	6.60%	5.00%	4.00%
2017	6.40%	6.40%	6.40%	4.90%	4.00%
2018	6.20%	6.20%	6.20%	4.90%	4.00%
2019	6.00%	6.00%	6.00%	4.80%	4.00%
2020	5.70%	5.70%	5.70%	4.80%	4.00%
2021	5.50%	5.50%	5.50%	4.70%	4.00%
2022	5.30%	5.30%	5.30%	4.70%	4.00%
2023	5.10%	5.10%	5.10%	4.60%	4.00%
2024	4.90%	4.90%	4.90%	4.60%	4.00%
2025	4.70%	4.70%	4.70%	4.50%	4.00%
2026+	4.50%	4.50%	4.50%	4.50%	4.00%

According to the actuaries, the earlier numbers represent recent experience with Ball State University’s retiree population, while the later numbers consider the implication that the overall economy cannot sustain the current rates of increase in health care costs. Something will have to change in the way health care is priced and delivered. In all likelihood, it will be some combination of federal funding and mandates, incentives for healthy lifestyles, rationing of services, plus more direct consumer involvement and choice in the selection of treatment and the payment of health care expenses. Already we have seen in recent years 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. Whatever form this takes, it is hoped that the effect on the Ball State University plan will be positive.

Since June 30, 2009, the investment markets have improved over where they were, despite continued uncertainty in the U.S. economy as well as the global economy. The decline in market values of residential and commercial property in the United States as well as a number of foreign countries has either continued or, where it has reached bottom, has not recovered. Loan defaults and foreclosures have continued. The result has been slower economic growth in the United States and elsewhere, which has led to recession, a weak recovery, and continued high unemployment. Further complicating the picture has been increased spending and borrowing by governments world-wide, leading to fears of sovereign default on bonds as well as the possibility of inflation. At the same time, the continued slowing of economic growth has led to fears of deflation. This uncertainty has led to increased volatility in the investment markets. The longer this uncertainty persists, the more difficult it will be to maintain the current level of funding of the steadily increasing actuarial liability.

At the same time, the University has embarked upon an ambitious program of health enhancement and wellness 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. 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 Controller and Business Services
 AD 301
 Muncie, IN 47306

Ball State University
Retiree Health and Life Insurance Plans
Statements of Net Assets
As of June 30, 2009 and 2008

	2009			2008		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
Assets:						
Cash and Short Term Investments	\$ 2,903,508	\$ 325,481	\$ 3,228,989	\$ 9,363,050	\$ 448,466	\$ 9,811,516
Receivables:						
Accrued Interest and Dividends	192,013	40,698	232,711	975,282	132,746	1,108,028
Retiree Contributions Receivable	24,436	181	24,617	76,790	435	77,225
Receivable from Ball State University	2,935,721	387,220	3,322,941	3,520,827	290,639	3,811,466
Miscellaneous Receivables	-	1,147	1,147	-	-	-
Total Receivables	<u>\$ 3,152,170</u>	<u>\$ 429,246</u>	<u>\$ 3,581,416</u>	<u>\$ 4,572,899</u>	<u>\$ 423,820</u>	<u>\$ 4,996,719</u>
Investments, at Fair Value:						
Fixed Income	\$ 21,949,836	\$ 2,931,457	\$ 24,881,293	\$ 26,790,111	\$ 3,731,121	\$ 30,521,232
Domestic Equity	61,202,918	9,013,109	70,216,027	69,881,962	11,975,885	81,857,847
International Equity	16,826,966	2,416,021	19,242,987	20,826,196	3,259,961	24,086,157
Real Estate Investment Trust	11,072,491	1,878,983	12,951,474	15,000,533	2,773,024	17,773,557
Total Investments	<u>\$ 111,052,211</u>	<u>\$ 16,239,570</u>	<u>\$ 127,291,781</u>	<u>\$ 132,498,802</u>	<u>\$ 21,739,991</u>	<u>\$ 154,238,793</u>
Total Assets	<u>\$ 117,107,889</u>	<u>\$ 16,994,297</u>	<u>\$ 134,102,186</u>	<u>\$ 146,434,751</u>	<u>\$ 22,612,277</u>	<u>\$ 169,047,028</u>
Liabilities:						
Accrued Expenses and Other Liabilities	\$ 22,106	\$ -	\$ 22,106	\$ 20,841	\$ -	\$ 20,841
Benefits Payable	913,715	365,028	1,278,743	735,726	155,750	891,476
Total Liabilities	<u>\$ 935,821</u>	<u>\$ 365,028</u>	<u>\$ 1,300,849</u>	<u>\$ 756,567</u>	<u>\$ 155,750</u>	<u>\$ 912,317</u>
Net Assets:						
Held in Trust for Post -Employment						
Health and Life Insurance Coverage	\$ 114,147,732	\$ 16,606,896	\$ 130,754,628	\$ 142,837,134	\$ 22,321,203	\$ 165,158,337
Other Net Assets	2,024,336	22,373	2,046,709	2,841,050	135,324	2,976,374
Total Net Assets	<u>\$ 116,172,068</u>	<u>\$ 16,629,269</u>	<u>\$ 132,801,337</u>	<u>\$ 145,678,184</u>	<u>\$ 22,456,527</u>	<u>\$ 168,134,711</u>
Total Liabilities and Net Assets	<u>\$ 117,107,889</u>	<u>\$ 16,994,297</u>	<u>\$ 134,102,186</u>	<u>\$ 146,434,751</u>	<u>\$ 22,612,277</u>	<u>\$ 169,047,028</u>

See accompanying Notes to Financial Statements. An unaudited Schedule of Funding Progress and Schedule of Contributions from University and Other Entities are presented on page 22.

Ball State University
Retiree Health and Life Insurance Plans
Statements of Changes in Plan Net Assets
For the Year Ended June 30, 2009 and 2008

	2009			2008		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
Additions:						
Contributions:						
Retiree Premiums	\$ 2,263,383	\$ 23,595	\$ 2,286,978	\$ 2,459,689	\$ 22,575	\$ 2,482,264
Employer Matching Premiums	6,790,396	72,732	6,863,128	7,562,021	67,727	7,629,748
Medicare Retiree Drug Subsidy	1,000,928	-	1,000,928	968,156	-	968,156
Ball State University Contributions to Fund	-	326,000	326,000	5,000,000	344,300	5,344,300
Total Contributions	<u>\$ 10,054,707</u>	<u>\$ 422,327</u>	<u>\$ 10,477,034</u>	<u>\$ 15,989,866</u>	<u>\$ 434,602</u>	<u>\$ 16,424,468</u>
Investment Income:						
Interest and Dividends from Investments	\$ 3,003,025	\$ 416,900	\$ 3,419,925	\$ 4,447,192	\$ 681,861	\$ 5,129,053
Net Gain from Sale of Investments	(4,369,652)	(37,694)	(4,407,346)	10,140,042	1,225,752	11,365,794
Unrealized Gains/(Losses) from Market Appreciation and (Depreciation)	<u>(28,108,499)</u>	<u>(5,640,241)</u>	<u>(33,748,740)</u>	<u>(26,321,660)</u>	<u>(4,097,939)</u>	<u>(30,419,599)</u>
Total Investment Income/(Loss)	<u>\$ (29,475,126)</u>	<u>\$ (5,261,035)</u>	<u>\$ (34,736,161)</u>	<u>\$ (11,734,426)</u>	<u>\$ (2,190,326)</u>	<u>\$ (13,924,752)</u>
Less Investment Expenses:						
Investment Custodial Fees	\$ 115,532	\$ 34,901	\$ 150,433	\$ 129,412	\$ 30,705	\$ 160,117
Investment Management Fees	98,931	(15,177)	83,754	124,609	55,224	179,833
Investment Consulting Fees	58,036	-	58,036	48,998	-	48,998
Other Investment (Income)/Expenses	<u>(187)</u>	<u>-</u>	<u>(187)</u>	<u>2,241</u>	<u>(23)</u>	<u>2,218</u>
Total Investment Expenses	<u>\$ 272,312</u>	<u>\$ 19,724</u>	<u>\$ 292,036</u>	<u>\$ 305,260</u>	<u>\$ 85,906</u>	<u>\$ 391,166</u>
Net Investment Income/(Loss)	<u>\$ (29,747,438)</u>	<u>\$ (5,280,759)</u>	<u>\$ (35,028,197)</u>	<u>\$ (12,039,686)</u>	<u>\$ (2,276,232)</u>	<u>\$ (14,315,918)</u>
Total Additions/(Deductions)	<u>\$ (19,692,731)</u>	<u>\$ (4,858,432)</u>	<u>\$ (24,551,163)</u>	<u>\$ 3,950,180</u>	<u>\$ (1,841,630)</u>	<u>\$ 2,108,550</u>
Deductions:						
Benefits	\$ 9,539,088	\$ 968,826	\$ 10,507,914	\$ 8,806,478	\$ 1,172,658	\$ 9,979,136
Administrative Expenses	183,556	-	183,556	213,301	-	213,301
Actuarial Expenses and Audit Fees	<u>90,741</u>	<u>-</u>	<u>90,741</u>	<u>220,746</u>	<u>-</u>	<u>220,746</u>
Total Deductions	<u>\$ 9,813,385</u>	<u>\$ 968,826</u>	<u>\$ 10,782,211</u>	<u>\$ 9,240,525</u>	<u>\$ 1,172,658</u>	<u>\$ 10,413,183</u>
Net Increase/(Decrease)	<u>\$ (29,506,116)</u>	<u>\$ (5,827,258)</u>	<u>\$ (35,333,374)</u>	<u>\$ (5,290,345)</u>	<u>\$ (3,014,288)</u>	<u>\$ (8,304,633)</u>
Net Assets:						
Beginning of Year	<u>145,678,184</u>	<u>22,456,527</u>	<u>168,134,711</u>	<u>150,968,529</u>	<u>25,470,815</u>	<u>176,439,344</u>
End of Year	<u>\$ 116,172,068</u>	<u>\$ 16,629,269</u>	<u>\$ 132,801,337</u>	<u>\$ 145,678,184</u>	<u>\$ 22,456,527</u>	<u>\$ 168,134,711</u>

See accompanying Notes to Financial Statements. An unaudited Schedule of Funding Progress and Schedule of Contributions from University and Other Entities are presented on page 22.

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Ball State University
Retiree Health and Life Insurance Plans
Notes to Financial Statements
June 30, 2009 and 2008

Note A – Significant Accounting Policies

Reporting Entity

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single-employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education in the State of Indiana governed by a nine-member Board of Trustees in accordance with IC 20-12-57.5. As part of a comprehensive employee benefits program, Ball State University provides health and life insurance benefits, in addition to pension benefits, to eligible retired employees.

Health insurance at Ball State University is a self-funded plan that utilizes third party administrators for health and dental benefits and for prescription drug benefits. Each year, the Board of Trustees establishes premiums for the next fiscal year, of which 25.0 percent are paid by the employees and retirees, and 75.0 percent are paid by the University. The premiums are intended to fully fund all claims, administrative costs, reserve adjustments, and contributions to a VEBA Trust established to partially fund health care costs for eligible retirees and their beneficiaries. The claims and applicable administrative costs of current retirees are paid from the self-funded plan, while the contributions to the VEBA Trust are intended to partially fund claims and administrative costs for retirees in the future. All of these payments count toward the Annual Required Contribution payment as calculated under GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

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

Contributions and Benefits

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

Federal Income Tax Status

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

Use of Estimates

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

Administrative Expenses

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

Commitments and Contingencies

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

Financial Statements

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

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

Net Assets

Net assets are composed of two amounts, the larger of which is the amount on deposit in the VEBA Trust and the LICF at fair value on June 30, 2009. The remaining amount, classified as other net assets, represents assets that have not been deposited with the VEBA Trust and the LICF as of June 30, 2009.

Note B – Investments

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

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

The following tables present the quality ratings of non-government-guaranteed fixed income assets in the LICF and the VEBA Trust as of June 30, 2009 and 2008.

<u>LICF</u> <u>Average Credit Quality and Exposure</u> <u>Levels of Non-Government Guaranteed Securities</u> <u>Year Ended June 30, 2009</u>						
<u>Standard & Poor's</u>	<u>Agency</u>	<u>Corporate Bonds</u>		<u>Mortgage Backed Securities</u>	<u>Collateralized Mortgage Backed Securities</u>	<u>Asset Backed Securities</u>
		<u>Short Term</u>	<u>Long Term</u>			
Agency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AAA+	45,016	-	-	1,405,475	-	-
AAA	-	-	5,435	72,604	176,009	12,867
AA+	-	-	24,057	-	-	-
AA	-	103,558	26,964	-	-	16,113
AA-	-	-	46,363	-	-	-
A+	-	-	91,249	-	-	-
A	-	30,678	271,045	-	-	10,861
A-	-	-	78,178	-	-	-
BBB+	-	-	28,618	-	-	-
BBB	-	-	15,893	47,656	-	-
BBB-	-	-	5,601	-	-	-
BB	-	-	-	10,345	-	-
NR	-	-	2,213	26,252	24,637	-
Total	<u>\$ 45,016</u>	<u>\$ 134,236</u>	<u>\$ 595,616</u>	<u>\$ 1,562,332</u>	<u>\$ 200,646</u>	<u>\$ 39,841</u>
Percent of All Fixed Income Assets	1.4%	4.1%	18.4%	48.3%	6.2%	1.2%

<u>LICF</u> <u>Average Credit Quality and Exposure</u> <u>Levels of Non-Government Guaranteed Securities</u> <u>Year Ended June 30, 2008</u>						
<u>Moody's Rating</u>	<u>Agency</u>	<u>Corporate Bonds</u>		<u>Mortgage Backed Securities</u>	<u>Collateralized Mortgage Backed Securities</u>	<u>Asset Backed Securities</u>
		<u>Short Term</u>	<u>Long Term</u>			
Agency	\$ 148,209	\$ -	\$ -	\$ 776,002	\$ 14,036	\$ -
Aaa	-	-	108,265	565,434	506,638	49,913
Aa	-	-	574,297	2,704	-	8,240
A	-	-	579,251	-	-	-
Baa	-	-	17,092	-	-	-
Total	<u>\$ 148,209</u>	<u>\$ -</u>	<u>\$ 1,278,905</u>	<u>\$ 1,344,140</u>	<u>\$ 520,674</u>	<u>\$ 58,153</u>
Percent of All Fixed Income Assets	3.5%	0.1%	30.5%	32.2%	12.5%	1.4%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2009

Standard & Poor's	Federal Agencies				Asset Backed Obligations
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations	
Agency	\$ -	\$ -	\$ 10,693,766	\$ -	
AAA	501,052	-	14,730	-	
A	105,179	-	-	-	
Total	\$ 606,231	\$ -	\$ 10,708,496	\$ -	
Percent of All Fixed Income Assets	2.6%	0.0%	46.5%	0.0%	

Standard & Poor's	Corporate Bonds & Notes		Foreign Bonds		Asset Backed Obligations
	Short Term	Long Term	Short Term	Long Term	
AAA	\$ -	\$ -	\$ -	\$ -	\$ 1,266,405
AA+	-	189,866	-	61,610	-
AA	-	241,514	-	53,666	-
AA-	-	307,794	-	32,465	-
A+	-	642,652	-	15,668	-
A	50,029	2,069,535	-	-	-
A-	50,482	610,581	-	155,781	-
BBB+	-	305,440	-	-	-
BBB	-	-	-	106,207	19,782
BBB-	-	108,879	-	-	-
BB-	-	31,965	-	-	-
NR	-	28,286	-	-	101,960
Total	\$ 100,511	\$ 4,536,512	\$ -	\$ 425,396	\$ 1,388,148
Percent of All Fixed Income Assets	0.4%	19.7%	0.0%	1.8%	6.0%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2008

Standard & Poor's	Federal Agencies				Asset Backed Obligations
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations	
Agency	\$ 808,327	\$ 3,858,191	\$ 10,557,719	\$ -	
AAA+	-	-	-	-	
AAA	-	-	-	-	
AA+	-	-	-	-	
AA	-	-	-	-	
AA-	-	-	-	-	
A+	-	-	-	148,876	
A	-	-	-	-	
A-	-	-	-	-	
BBB+	-	-	-	-	
Total	\$ 808,327	\$ 3,858,191	\$ 10,557,719	\$ 148,876	
Percent of All Fixed Income Assets	2.7%	12.8%	35.0%	0.5%	

Standard & Poor's	Corporate Bonds & Notes		Foreign Bonds		Asset Backed Obligations
	Short Term	Long Term	Short Term	Long Term	
Agency	\$ -	\$ -	\$ -	\$ -	\$ -
AAA	-	354,442	-	-	2,169,099
AA+	-	67,304	45,380	-	-
AA	-	425,619	-	-	-
AA-	50,591	1,203,044	60,731	131,936	-
A+	129,945	820,627	-	14,605	-
A	29,929	691,039	-	-	136,566
A-	40,592	423,085	-	132,068	-
BBB+	-	68,973	-	109,976	-
BBB	-	54,600	-	-	-
BBB-	-	34,487	-	-	-
Total	\$ 251,057	\$ 4,143,220	\$ 106,111	\$ 388,585	\$ 2,305,665
Percent of All Fixed Income Assets	0.8%	13.7%	0.4%	1.3%	7.6%

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

The following tables list the effective weighted average duration of fixed income investments in the LICF and the VEBA Trust at June 30, 2009 and 2008.

LICF
Year Ended June 30, 2009

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>June 30, 2009</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Securities	\$ 478,346	14.8%	5.4
Federal Agency Securities	\$ 45,016	1.4%	8.1
Corporate Bonds	\$ 729,852	22.5%	4.4
Mortgage Backed Securities	\$ 1,562,332	48.3%	3.4
Collateralized Mortgage Backed Securities	\$ 200,646	6.2%	2.4
Asset Backed Securities	\$ 39,841	1.2%	2.2
Cash and Money Market	\$ 180,993	5.6%	-
Municipal Bonds	\$ -	0.0%	-

LICF
Year Ended June 30, 2008

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>June 30, 2008</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Securities	\$ 727,996	17.4%	5.4
Federal Agency Securities	\$ 148,209	3.5%	9.5
Corporate Bonds	\$ 1,278,905	30.6%	5.1
Mortgage Backed Securities	\$ 1,344,140	32.2%	4.0
Collateralized Mortgage Backed Securities	\$ 520,674	12.5%	4.4
Asset Backed Securities	\$ 58,153	1.4%	2.1
Cash and Money Market	\$ 79,980	1.9%	-
Municipal Bonds	\$ 21,530	0.5%	5.5

VEBA Trust
Year Ended June 30, 2009

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>June 30, 2009</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Bonds and Notes	\$ 1,736,317	7.5%	5.5
U.S. Treasury Strips	\$ 2,566,336	11.1%	5.7
Federal Agency Bonds and Notes	\$ 606,231	2.6%	4.5
US Treasury Infl Idx	\$ 108,064	0.5%	1.6
Federal Agency Collateralized Mortgage Obligations	\$ 8,426,610	36.6%	2.7
Federal Agency Pass Through	\$ 2,281,885	9.9%	2.4
Government National Mortgage Assoc Pools	\$ 15,397	0.1%	2.7
Asset Backed Obligations	\$ 1,388,148	6.0%	2.2
Foreign Bonds	\$ 425,396	1.8%	3.8
Corporate Bonds and Notes	\$ 4,637,023	20.1%	3.7
Cash and Money Market	\$ 837,327	3.6%	-

VEBA Trust
Year Ended June 30, 2008

<u>Fixed Income Security Type</u>	<u>Fair Value</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Securities	\$ 3,358,920	11.1%	3.4
U.S. Treasury Strips	\$ 2,493,430	8.3%	5.4
Federal Agency Bonds and Notes	\$ 808,327	2.7%	2.9
Foreign Government Obligations	\$ 148,876	0.5%	0.6
Federal Agency Collateralized Mortgage Obligations	\$ 10,557,719	35.0%	4.0
Federal Agency Pass Through	\$ 3,858,191	12.8%	3.0
Government National Mortgage Assoc Pools	\$ 21,904	0.1%	2.2
Asset Backed Obligations	\$ 2,305,665	7.6%	2.1
Foreign Corporate Bonds	\$ 494,696	1.6%	1.7
Corporate Bonds and Notes	\$ 4,394,277	14.6%	3.3
Cash and Money Market	\$ 1,757,875	5.8%	-

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

VEBA Trust and LICF
Year Ended June 30, 2009

<u>Country</u>	<u>Fixed Income</u>	<u>Equities</u>
Canada	\$ 172,973	\$ 93,024
United Kingdom	307,035	704,973
Australia	47,021	-
Netherlands	104,061	805,458
Mexico	-	74,001
Ireland	-	243,360
Switzerland	-	872,347
Japan	-	896,441
France	-	457,095
Greece	-	211,985
Israel	-	125,866
Sweden	-	332,520
	<u>\$ 631,089</u>	<u>\$ 4,817,069</u>

VEBA Trust and LICF
Year Ended June 30, 2008

<u>Country</u>	<u>Fixed Income</u>	<u>Equities</u>
Canada	\$ 460,404	\$ 241,738
United Kingdom	384,886	933,824
Australia	14,318	-
Netherlands	5,162	1,226,139
Mexico	-	163,489
Ireland	-	486,515
Switzerland	-	978,993
Japan	-	2,009,106
France	-	832,639
Greece	-	232,441
Israel	-	102,274
Bermuda	-	168,168
China	-	102,274
Taiwan	-	65,083
Germany	11,026	-
Panama	-	130,167
Qatar	4,666	-
	<u>\$ 880,461</u>	<u>\$ 7,672,850</u>

Note C – Derivatives

The investment policy strictly limits derivatives as follows:

- Index U.S. Large Cap Equity Mutual Fund Managers – may be used only to provide liquidity and to “equitize” dividends and other cash flow and may not exceed ten percent of the portfolio.
- Active U.S. Small Cap Equity Managers – options and futures limited to covered hedges only.
- International Equity Mutual Fund Managers – currency hedging is permitted.

- Fixed Income Managers – limited to pass through mortgage backed and asset backed securities and PAC I (Planned Amortization Class) CMOs (Collateralized Mortgage Obligations), but interest rate and prepayment sensitivity of these instruments must be similar to typical bonds of similar maturity and coupon. The total exposure to derivative securities should not exceed the allocations within the portfolio's benchmark index. Derivatives subject to significant price volatility in response to changes in interest rates or prepayment rates, such as interest-only securities, principal-only securities (POS), Inverse Floaters, Structured Notes, etc. are prohibited.

Note D – Contributions and Reserves

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

Note E – Description of Plans

Substantially all of the University's regular full-time employees may become eligible for retiree health and life insurance coverage if they retire from the University after accruing the required years of service (15 years at age 50; 10 years at age 60 for those hired before September 1, 1999). As of June 30, 2009, out of a total of 2,706 (2,956 in 2008) benefits eligible active employees, 936 (875 in 2008) had fulfilled the age and service requirements for these retiree benefits.

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

For the year ended June 30, 2009, retirees contributed \$2.3 million (\$2.5 million in 2008) in premiums for health care coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$6.8 million (\$7.6 million in 2008) as its 75.0 percent requirement. Monthly premiums paid by retirees not eligible for Medicare ranged from \$78.84 for single coverage in the least expensive plan option to \$721.48 for family coverage in the most expensive plan option. Most non-Medicare retirees paid \$156.20 per month for single coverage and \$405.56 per month for family coverage. Medicare-eligible retirees and spouses each paid \$71.78 for medical and prescription drug coverage and \$7.38 if they chose the optional dental coverage. This was in addition to the Medicare Part B Premium.

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

For the year ended June 30, 2009, retirees contributed \$23.6 thousand (\$22.6 thousand in 2008) in premiums for life insurance coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$72.7 thousand (\$67.7 thousand in 2008) as its 75.0 percent requirement. Retirees pay \$.07 per \$1,000 of coverage per month, which means the maximum monthly premium paid by retirees is \$2.63.

Note F – Funded Status and Funding Progress

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

<u>Schedules of Funding Progress</u>							
		<u>Actuarial</u>					UAAL as a % of Covered Payroll
Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll		
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	16,546,332	20,150,137	3,603,805	82.1%	\$ 151,120,585	2.4%
Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%
Health	7/1/07	\$ 148,827,822	\$ 171,887,451	\$ 23,059,629	86.6%	\$ 136,645,256	16.9%
Life	7/1/07	25,238,907	19,036,901	(6,202,006)	132.6%	\$ 136,645,256	-4.5%
Total		<u>\$ 174,066,729</u>	<u>\$ 190,924,352</u>	<u>\$ 16,857,623</u>	91.2%	\$ 136,645,256	12.3%

Valuations prior to July 1, 2007, were not valued in accordance with GASB Statement No. 43.

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

The accompanying Schedules of Contributions from the University and Other Entities present trend information about the amounts contributed to the plan by the University and the federal government through the Medicare Retiree Drug Subsidy in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. 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, 2009
Actuarial Cost Method	Projected unit credit
Amortization Method	Level dollar over a 30-year closed period (closed basis)
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5% per year compounded annually
Payroll Growth Rate	4.0% per year compounded annually
Healthcare Cost Trend Rates:	
Pre-65 Medical	8.0% initial / 4.5% ultimate (not applicable to Life)
Post-65 Medical	7.0% initial / 4.5% ultimate (not applicable to Life)
Prescription Drugs	8.0% initial / 4.5% ultimate (not applicable to Life)
Dental	5.0% initial / 4.5% ultimate (not applicable to Life)
Administration	4.0%

Ball State University
Retiree Health and Life Insurance Plans
Required Supplemental Information
June 30, 2009

Schedules of Funding Progress

	Valuation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
		Value of Assets	Accrued Liability (AAL)				
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	16,546,332	20,150,137	3,603,805	82.1%	\$ 151,120,585	2.4%
Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%
Health	7/1/07	\$ 148,827,822	\$ 171,887,451	\$ 23,059,629	86.6%	\$ 136,645,256	16.9%
Life	7/1/07	25,238,907	19,036,901	(6,202,006)	132.6%	\$ 136,645,256	-4.5%
Total		<u>\$ 174,066,729</u>	<u>\$ 190,924,352</u>	<u>\$ 16,857,623</u>	91.2%	\$ 136,645,256	12.3%

Valuations prior to July 1, 2007, were not valued in accordance with GASB Statement No. 43.

Schedules of Contributions from University and Other Entities

Year Ended June 30	Health Care			Total Percentage Contributed	Life Insurance	
	Annual Required Contribution	Percentage Contributed	Federal Subsidy		Annual Required Contribution	Percentage Contributed
2009	\$ 7,632,201	116.9%	\$ 1,000,928	130.0%	\$ 152,118	214.3%
2008	\$ 6,674,483	194.4%	\$ 968,156	208.9%	-	0.0%
2007	\$ 7,231,271	120.5%	\$ 836,322	132.1%	\$ 74,559	387.2%