



Navigating in the 'New Normal'



Navigating in the 'New Normal'

To our alumni and friends:

The economy has been on a bumpy journey. Many are saying recovery will take time and will be far removed from the place we were before. The destination: a "new normal," which will greatly affect the way we live and work.

Ongoing volatility in our state and national economies, as well as the investment markets of the world, has placed an even greater premium on the efficient use of the limited resources we maintain with our partner, Ball State.

Thanks to the work of several important task forces as well as a sound strategic plan and investment policy, the Ball State University Foundation is positioned to emerge from the current economic situation a stronger and more resilient organization.

We are grateful for each of our generous donors who, despite economic challenges, have continued to support the Ball State Bold capital campaign. We will continue to be dedicated stewards of these funds.

Sincerely,



J. Richard Emens
Chairman, Board of Directors
Ball State University Foundation



David W. Bahlmann
President and CEO
Ball State University Foundation

Seeking Solutions

The foundation has taken important steps to navigate in this new environment by closely looking at what we do, how we do it, and how we define success. This year, board task forces have examined our current challenges and what it takes to win in circumstances where there are no shortcuts.

Asset Allocation Task Force

The Asset Allocation Task Force, led by Investment Committee Chair A. Umit Taftali, has a working subgroup that is reviewing the board's current asset allocation and will recommend how the allocation should be updated to meet the current and future spending needs of the university and foundation. See next page for the current asset allocation chart.

Debt Management Task Force

Board Vice Chair Stefan S. Anderson is leading this group to create a debt policy for the foundation. The goal is to produce a document that provides a clear understanding of the use of debt obligations. This includes fiscal integrity and long-term financial stability in long-term or short-term debt obligations that are either a direct or contingent liability of the foundation.



J. Richard Emens and David W. Bahlmann

Organizational Task Force

Led by Committee on Directors Chair Penny A. Ralston, this task force took board members through an extensive self-examination survey regarding their commitments and responsibilities. The task force was then divided into two subgroups. The structure and content group is dealing with topics concerning the structure of the board, meeting dates and times, and configuration of the board's committee system. The board member engagement committee is centered on the board's operational processes, accountability, engagement, and new member orientation and mentoring.

Spending Policy Task Force

Under the leadership of board member C. Kenneth White, this group is studying policies as they pertain to unrestricted and restricted funds. Members are reviewing policies from all over the nonprofit map to develop a superior model. The foundation board of directors annually reviews the spending and payout policies to maintain balanced investment and spending strategies that provide steady, continuous income while allowing for inflation and market conditions over time.



The Business of Risk

A Conversation with Thomas Heck

Thomas Heck (MS '83), chief investment officer (CIO), keeps a close eye on the investment markets in his focus to achieve the foundation's investment objectives. He is backed by our investment consultant, Hammond Associates, and an Investment Committee, which has created an investment policy designed to take advantage of the good times or weather any economic storm.

What is the function of the foundation's Investment Committee?

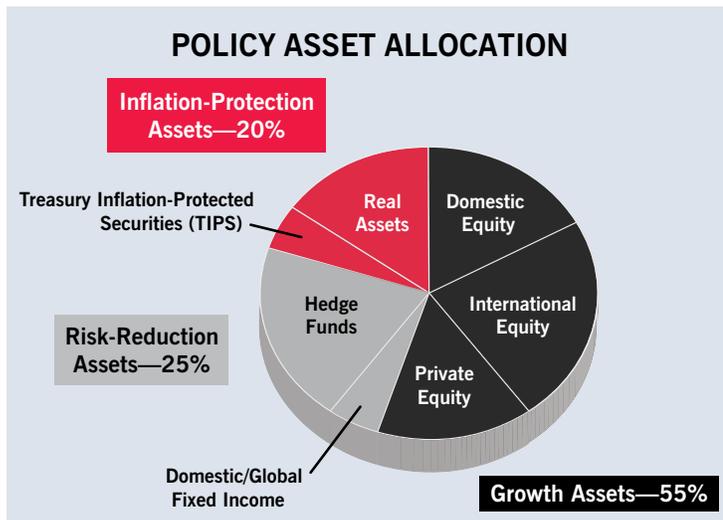
The Investment Committee works to preserve and enhance the purchasing power of the endowment and to support the current and future needs of Ball State on a stable and hopefully increasing basis. The investment objective is to achieve an average annual real total return in excess of the spending rate over the long term, with a prudent level of risk.

What is your role as CIO?

I team up with the Investment Committee and our consultant in developing investment policy and strategy, execute that strategy by hiring investment managers and overseeing due diligence activities, monitor and report investment results, and integrate our investment process with the fundraising and spending activities of the foundation.



Thomas Heck at the A. Umit Taftali Center for Capital Markets and Investing



How do you balance the need to protect capital with the desire to achieve high investment returns?

It's a question of risk and risk tolerance. In one sense, we can try to evaluate how much risk to take and determine the most productive place to invest that risk. But risk is an elusive parameter to measure. Increasingly, the field is more dynamic and the tools are more complex, but the objective is the same. We must embrace risk with prudence, find ways to exploit opportunity with skill, take advantage of our illiquidity and our unlimited investment horizon, and understand our ability to, at times, arbitrage short-term loss for long-term gain.

Because we are long-term investors, time is our friend. Short-term losses are part of the landscape in the pursuit of long-term gains.

What is your view of the "new normal"?

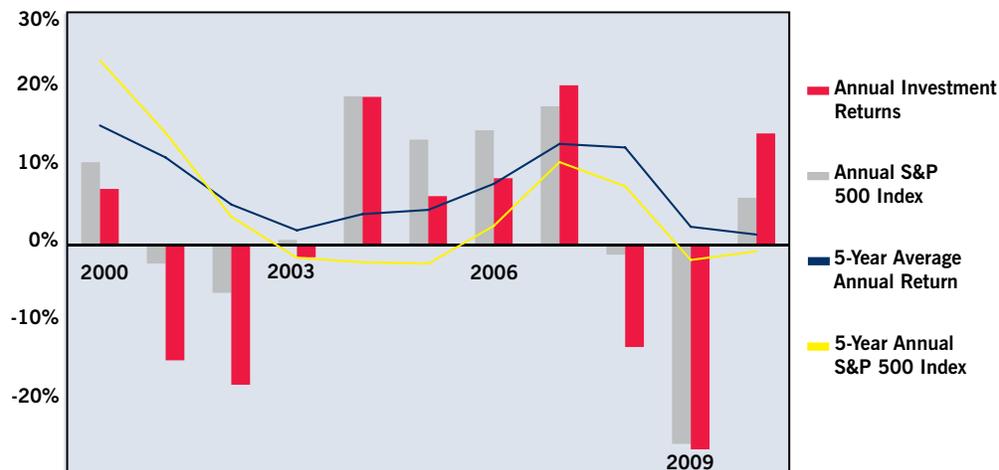
Is the future ever like the past? I think of a quote attributed to Mark Twain: "History doesn't repeat itself, but it does rhyme."

There is significant debate concerning whether we are entering into a "new normal" in investment markets. In my 22-year tenure at the foundation, we have evolved from a "normal" of investing in high-quality bonds in the 1980s, to the 1990s era of equity, to the current world of alternative investments, which includes hedge funds.

I remember double-digit inflation, the savings and loan crisis, and other dramatic events in the investment markets. More broadly, I've read about the turnover of societies and civilizations. Through all of these events, investors have found ways to make money.

In the investment context, this means being diversified among asset classes, among risk exposures, and among managers with different skills and different perspectives on the market. One needs to keep the objectives in mind and be prepared to respond to situations with reason and without panic. I believe we are entering into a "new normal," but is this just another in a succession of normals?

INVESTMENT RETURNS 2000-2010



Giving in the 'New Normal'

We are very proud and honored that our alumni and friends believe in Ball State's valiant vision for the future. In spite of economic challenges, Ball State Bold has raised more than \$198.6 million of the \$200 million goal, with months remaining in the campaign. Of this total, more than \$61 million has been funded with planned gifts. (Enclosed is a membership list of the Beneficence Society, which honors those who have included Ball State in their estate plans.)

The campaign officially started before the recession began, but donations haven't slowed down dramatically as a result of this downturn. So, what drives our supporters to give back, even in a tough economy?

Tending to Your Roots

James (BS '79) and Darla Wainscott

"While the downturn in the economy has affected each one of us, it has also affected the Ball State foundation's and the university's ability to award scholarships. In this economic environment, student aid is critical in attracting and retaining students, and all of us should keep that in mind." —Jim Wainscott

Gift: The Wainscotts made a gift to support Ball State's Emens Scholars Program, which recognizes outstanding student leaders and encourages recipients to continue to develop their leadership skills through a four-year scholarship program. They chose to use appreciated stock as a way of honoring a two-year pledge to the program because it was an easy and tax-efficient thing to do. Jim and his brother Ed have also established an accounting scholarship fund.

Background: Jim, earned an accounting degree from Ball State and an MBA from Notre Dame. He joined AK Steel in Middletown, Ohio, in 1995 as vice president and treasurer and is now the chairman, president, and chief executive officer of the company.

Jim and Darla have long dedicated their community service to groups that support children and their families. They serve the boards of directors of the Children's Home of Cincinnati, Good Samaritan Hospital Foundation, and Anthony Muñoz Foundation. Jim recently received the National Impact Award from Junior Achievement.



Motivation: "Remember your roots and take care of them" is an expression Jim often heard from his parents. "To each of us who claim some of our roots at Ball State, I say please consider making a gift, or an additional gift," says Jim, a member of Ball State's National Philanthropy Council and recipient of the Miller College of Business Alumni Award of Distinction. "In doing so, you will be making a meaningful difference in the lives of others. That, in itself, is a great reward. As alumni, let's give back to our alma mater as a way of saying thanks for the great education we received as we remember and take care of our roots."

Means and Motive

Robert (BS '86) and Sandra (BS '84) Morris

"You have to be in a position to give and have the reasons to give. The economy is going to move around, but give from the heart and to the causes you believe in. That overrides any economic situation." —Robert Morris

Gift: Ball State alumni Robert and Sandra Morris took advantage of the Bold campaign's Endowment Challenge Match, which doubled their outright gift. They also created a planned gift through a life insurance policy. Their fund will provide four-year merit recruitment scholarships to Ball State students in each of their undergraduate departments: chemistry and nursing.

Background: After earning his doctorate from University of Illinois at Urbana-Champaign and doing postdoctorate work at the University of California, Berkeley, Robert joined the chemistry faculty at Ball State in 1991 as an assistant professor. He later moved to full professor, chair of the chemistry department, and to his current position as associate provost for research and dean of the Graduate School. Sandra has specialized in cardiology, medical-surgical nursing, and endoscopy and has worked as a critical care nurse in a hospital burn unit, oncology nurse, and currently an infusion nurse at Medical Consultants in Muncie, Indiana. She also served as the clinical coordinator at the Amelia T. Wood Health Center at Ball State.

Motivation: The Morrises remember struggling to make ends meet in the early years. After their careers took off, they made some smart financial decisions and found they could afford a comfortable living with enough to give back to Ball State. Their scholarship will soon be endowed, which will allow them to interact with the recipients. "We appreciate what Ball State has given us and are honored that we can give back to do our little part to help future students in each of our career fields," says Sandra.



An Act of Kindness

Nancy McCaffrey (BS '69, MA '72)

"There is a great appreciation for philanthropy. Whenever giving is a part of your life, people are brought together for a good cause. The Ball State University Foundation has proven again and again that all donations do become acts of kindness for the work in progress of educating students." —Nancy McCaffrey

Gift: Nancy McCaffrey has been a loyal alumna, making annual gifts to the Ball State Fund, a pooled fund that provides unrestricted support for the university's priority projects. She joins thousands of other dedicated alumni and friends who are members of the 1918 Society, donors who have given to Ball State for five consecutive years or more.

Background: After earning her bachelor's and master's degrees in elementary education at Ball State, she enjoyed a long career teaching kindergarten, first, and third grades at Yorktown and Shenandoah school corporations in Indiana before retiring in 2005.

Motivation: A "clear and present devotion" to her alma mater has been the driving force for Nancy to give year after year. "My education has blessed me with a great profession and many years of teaching the future leaders of our great country," she says. "That inspired me to give annually, so others can also continue to meet those educational needs for developing quality leaders." A quote from the Dr. Seuss book, *The Lorax*, she used to read to her students also sparked her giving spirit: "Unless someone like you cares a whole awful lot, nothing is going to get better. It's not."



For more information on the Bold campaign, go to www.bsu.edu/bold or contact University Development for outright gifts or foundation staff member Philip Purcell, JD, for planned gifts.

Statement of Financial Position

Assets

| | 2010 | 2009 |
|-----------------------------------------------|----------------------|----------------------|
| Cash and investments in marketable securities | \$145,925,580 | \$140,131,646 |
| Contributions receivable | 19,555,428 | 21,567,114 |
| Beneficial interests in external trusts | 3,567,409 | 3,465,236 |
| Investments in split-interest agreements | 1,991,123 | 1,928,987 |
| Property and equipment | 6,501,189 | 5,117,767 |
| Other assets | 1,729,457 | 1,205,003 |
| Total assets | \$179,270,186 | \$173,415,753 |

Liabilities

| | | |
|-------------------------------|---------------------|---------------------|
| Accounts payable | \$4,514,133 | \$9,871,603 |
| University grants payable | 1,341,508 | 1,341,508 |
| Accrued expenses | 211,248 | 163,834 |
| Line of credit | 3,395,000 | 5,100,000 |
| Term note payable | 8,300,000 | |
| Bond payable | 10,000,000 | 10,000,000 |
| Annuity and trust obligations | 2,480,569 | 2,518,908 |
| Total liabilities | \$30,242,458 | \$28,995,853 |

Net assets

| | | |
|-----------------------------------------|----------------------|----------------------|
| Unrestricted | (\$12,084,096) | (\$12,355,124) |
| Temporarily restricted | 93,829,581 | 89,572,170 |
| Permanently restricted | 67,282,243 | 67,202,854 |
| Total net assets | \$149,027,728 | \$144,419,900 |
| Total liabilities and net assets | \$179,270,186 | \$173,415,753 |

Statement of Financial Activity

| Total Foundation | 2010 | 2009 |
|----------------------------------------------------------------|---------------------|-----------------------|
| Revenue, Gains, and Other Support | | |
| Contributions and promotional activities | \$15,688,712 | \$13,994,750 |
| Investment income, including net realized and unrealized gains | 8,119,866 | (46,870,725) |
| Total revenue, gains, and other support | \$23,808,578 | (\$32,875,975) |
| Expenses | | |
| University programs, including capital projects | \$14,409,797 | \$23,008,713 |
| Management and general | 1,510,007 | 1,283,140 |
| Fundraising | 3,280,946 | 3,702,039 |
| Total expenses | \$19,200,750 | \$27,993,892 |
| Change in net assets | \$4,607,828 | (\$60,869,867) |
| | | |
| Unrestricted | | |
| Revenue, Gains, and Other Support | | |
| Contributions and promotional activities | \$1,742,811 | \$1,363,984 |
| Investment income, including net realized and unrealized gains | 3,631,625 | (31,556,272) |
| Operating support fees | 936,069 | 949,728 |
| Net assets released from restrictions and reclassifications | 13,161,273 | 15,321,439 |
| Total revenue, gains, and other support | \$19,471,778 | (\$13,921,121) |
| Expenses | | |
| University programs, including capital projects | \$14,409,797 | \$23,008,713 |
| Management and general | 1,510,007 | 1,283,140 |
| Fundraising | 3,280,946 | 3,702,039 |
| Total expenses | \$19,200,750 | \$27,993,892 |
| Change in net assets | \$271,028 | (\$41,915,013) |
| | | |
| Temporarily Restricted | | |
| Revenue, Gains, and Other Support | | |
| Contributions | \$12,772,581 | \$10,622,848 |
| Investment income, including net realized and unrealized gains | 4,146,680 | (14,721,413) |
| Operating support fees | (912,415) | (931,253) |
| Total revenue, gains, and other support | \$16,006,846 | (\$5,029,818) |
| Net assets released from restrictions and reclassifications | (11,749,435) | (15,622,505) |
| Change in net assets | \$4,257,411 | (\$20,652,323) |
| | | |
| Permanently Restricted | | |
| Revenue, Gains, and Other Support | | |
| Contributions | \$1,173,320 | \$2,007,918 |
| Investment income, including net realized and unrealized gains | 341,561 | (593,040) |
| Operating support fees | (23,654) | (18,475) |
| Total revenue, gains, and other support | \$1,491,227 | \$1,396,403 |
| Net assets released from restrictions | (1,411,838) | 301,066 |
| Change in net assets | \$79,389 | \$1,697,469 |

Financial Comments for Fiscal Year 2010

Alumni and friends of Ball State University made total contributions of more than \$15 million in fiscal year 2010. This brings the total contributions made to the foundation since 1951 to more than \$361 million. During fiscal year 2010, the foundation provided more than \$14 million in support to Ball State. Total support provided to Ball State since 1951 is now more than \$276 million. During these past five years of very volatile financial markets, the foundation's average annual return was 1.4 percent compared to a -0.8 percent for the S&P 500 Index. This is due to our asset allocation and the fact that our focus is on a longer-term investment horizon because we invest primarily endowment funds.

With the financial markets we have experienced the past two years, the foundation continues to operate with a negative unrestricted net asset balance. Because of this, the foundation continues to closely monitor its operating expenses. Through attrition, we have reduced our staff from 23 to 16 in the past two years. This has caused us to look closely at all functions performed by our staff and to develop more efficient ways to get this workload accomplished with fewer people. Our staff has been very willing to look at improving our processes and take on additional workloads. For these efforts, we would like to express our appreciation.

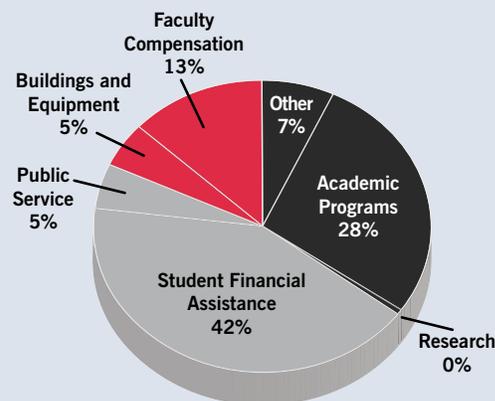
Following are other significant events that occurred during fiscal year 2010:

- The foundation filed the new Form 990 with the Internal Revenue Service for fiscal year 2009 last spring. This form is considerably more extensive in disclosure of information related to the activities of the foundation. It also requires more discussion of the mission and purpose of foundation activities than in the past.
- During the year, the foundation helped fund the construction of the new Student Recreation and Wellness Center. This new facility, which opened in August 2010, provides students, faculty, and staff with state-of-the-art exercise equipment and other recreation opportunities.

In spite of the uncertain financial markets we have faced the past two years, the foundation remains financially strong and continues to provide substantial amounts of support to Ball State University.



DESIGNATION OF NET ASSETS



New Endowments in Fiscal Year 2010

Lois E. and Carolyn J. Anderson Scholarship
Joanne N. and J. Robert Baur Scholarship
Bracken Family Scholarship
Burrill Scholarship
Class of 1960 Emens Scholarship
John and Priscilla Davis Convocation Fund
Department of Theatre and Dance Showcase Programs
Leroy "Bud" Getchell Graduate Student Professional Development Fund
Indiana Academy General Endowment
Thomas J. Kinghorn Scholarship

William E. and Helen E. Locke Scholarship
Sandra K. and Robert J. Morris Fund
C. Kenneth Proctor Scholarship
Vernon Shepherd
Richard S. Simmons Memorial Scholarship
Mary Jane Sursa Distinguished Professorship in Nursing
Vectren Corporation Scholarship in honor of Niel C. Ellerbrook
Ozora T. and Maxine White Education Scholarship
Evelyn Reynolds Wible Nursing Scholarship
Lou Ann Young Ballet Scholarship

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A. Umit Taftali (BS '85)

C. Kenneth White (BS '71)

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