

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

RETIREE HEALTH AND LIFE INSURANCE PLANS



**B A L L S T A T E
U N I V E R S I T Y[®]**

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, 2012,
and the results of activities for
the year then ended.

Bernard M. Hannon
Vice President for Business Affairs
and Treasurer

March 2, 2015

Ball State University

2011-2012

Frank A. Bracken, Indianapolis, IN
(completed term December 31, 2011)

Thomas C. Bracken, Muncie, IN
(term began January 1, 2012)

R. Wayne Estopinal, Jeffersonville, 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

Michael T. Miller, Elkhart IN

Officers

Hollis E. Hughes Jr.	President
Frank A. Bracken.....	(completed term December 31, 2011) Vice President
Frank Hancock.....	(term began January 1, 2012) Vice President
Richard Hall.....	Secretary
Barbara Phillips.....	Assistant Secretary
Randall B. Howard.....	Treasurer

University President
Paul W. Ferguson

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

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ball State University
Muncie, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Retiree Health and Life Insurance Plans of Ball State University (the Plans), which comprise the statements of plan net assets as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plans as of June 30, 2012 and 2011, and the changes in its plan net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and contributions from university and other entities on pages 1–10 and 26, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015, on our consideration of the Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.



Indianapolis, Indiana
March 2, 2015

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Ball State University Retiree Health and Life Insurance Plans Management's Discussion and Analysis June 30, 2012 and 2011

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 2011-2012 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,840 full-time and 485 part-time personnel, whereas in 2010-2011 there were 2,850 full-time and 520 part-time personnel and 2,872 full-time and 420 part-time in 2009-2010.

Full-time regular employees of the University are eligible to receive a variety of employee benefits, including vacation, sick leave, short and long term disability insurance, health, life, and accidental death and dismemberment insurance, pension benefits, and fee waivers for employees, spouses and dependents. For the 2011-2012 fiscal year, the University recorded benefits of \$68.7 million, plus an \$18.1 million estimated value for vacation and sick leave benefits whose usage would be included in payroll, for a total of \$86.8 million. The \$68.7 million includes \$27.7 million in health insurance for active employees, as well as \$19.5 million in pension contributions, \$13.2 million of employer matching payments to Social Security and Medicare, and \$7.6 million in health insurance for current retirees. The University pays 100.0 percent of the required contributions to pension plans. Beginning July 1, 2011, the University began paying different percentages of the health care premiums for each of the various health care plan options for employees and early retirees. In 2011-2012, the University's share of the health care premiums ranged between 71.0 and 90.0 percent dependent on the plan. In addition, employees are provided the opportunity to set aside additional amounts for retirement through deductions from their paychecks before taxes. These amounts are then deposited into the 403(b) and/or 457(b) voluntary retirement plans that the University has established for this purpose.

In addition to providing pension benefits to all regular full-time employees, the University, like many other public and private employers, also provides health and life insurance benefits to employees who retire from the University after accruing the required years of service (15 years at age 62; 15 years at age 50 for those hired before July 1, 2009; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2012, 975 retired employees (979 as of June 30, 2011, and 975 as of June 30, 2010) were covered by retiree life insurance, while 1,870 retired employees, spouses and surviving spouses (1,843 as of June 30, 2011, and 1,770 as of 2010) were covered by retiree health insurance. In addition, 890 active employees (904 in 2011 and 860 in 2010) 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 Voluntary Employee Beneficiary Association (VEBA) Trust to help fund future retiree benefits.

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

Many near-retirees in higher education are concerned about their ability to afford health care in retirement. A December 2009 paper from the TIAA-CREF Institute, entitled "Meeting Health Care Expenses in Retirement: How Ready Are Near-Retirees?" revealed that a survey of college and university employees aged 50 to 70 who are saving for retirement showed that 42 percent are very concerned about their ability to afford health care. In fact, the study showed that near-retirees are more concerned about health care than with other retirement-related issues, such as having enough money to retire when planned and outliving their savings in retirement.

Employer-provided retiree health insurance is a significant benefit for retirees. For many Americans, health care likely will be among their largest expenses in retirement. 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). An Employee Benefits News article dated June 15, 2012, revealed that Fidelity Investments estimated that a 65-year-old couple retiring in 2012 would need \$240,000 to cover medical expenses in retirement. The estimate has increased an average of six percent annually since Fidelity's initial calculation of \$160,000 in 2002. These amounts, depending upon the assumptions used, are not surprising considering the number of health issues typically encountered by senior citizens. This is important to consider because the broad social implications of having an increasing population demographic unprepared to finance these obligations must be addressed by leadership in all sectors.

For the years ended June 30, 2012, 2011, and 2010, the cost to Ball State University of health care for all current retirees, spouses, and surviving spouses were as follows:

	2012	2011	2010
Insurance Claims	\$ 9,777,586	\$ 9,730,863	\$ 10,130,809
Administration	255,540	268,849	210,688
Total	\$ 10,033,126	\$ 9,999,712	\$ 10,341,497
Less:			
Retiree Premiums	\$ 2,391,172	\$ 2,368,910	\$ 2,159,410
Amount included in Benefits Expense	7,641,954	7,630,802	8,182,087
Less:			
Medicare Retiree Drug Subsidy	665,202	1,130,869	1,279,787
Net Cost of Benefit to University	\$ 6,976,752	\$ 6,499,933	\$ 6,902,300

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 8.0 percent of total estimated benefits (7.4 in 2011, 7.5 in 2010), while pension contributions made by the University amounted to 22.5 percent (21.9 percent in 2011, 20.2 percent in 2010), and the employer portion of Social Security and Medicare amounted to 15.2 percent (12.1 percent in 2011, 13.6 percent in 2010). Taken together, 45.7 percent (41.4 percent in 2011, 41.4 percent in 2010) 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 1991-1992, the first liability projection by consulting actuaries from Mercer was completed. In fiscal year 1995-1996, following an extensive study by Hewitt Investment Group, a leading consultant providing investment advice for clients with predominantly pension assets totaling over \$31.0 billion, the Board of Trustees approved a policy for the investment of the LICF and the VEBA Trust. Following this action, Hewitt Investment Group was appointed as the investment consultant for these plans, meeting with the University at least quarterly to review investment results, evaluate and replace managers when necessary, and recommend further refinements to the policy.

During this time, contributions were made to the VEBA Trust from the University's self-insured health care plan, other benefits accounts, and, on occasion, the LICF. In 2004, the Governmental Accounting Standards Board issued Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which took effect for Ball State University during fiscal year 2006-2007, and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which took effect for Ball State University during fiscal year 2007-2008. The University's funding methodology is based on the calculation of the annual cost, or the ARC, as defined in these statements. In addition, funds available over and above the calculated contribution required have at times been contributed to the VEBA Trust in order to bring the funding status closer to the calculated actuarial liability. As of June 30, 2012, University contributions from date of inception remain unchanged from the previous year, totaled \$66.4 million, while the \$0.8 million investment loss for the year brings the net dividends, interest and realized

and unrealized investment gains and losses from inception to date to \$84.0 million. In addition, to date transfers from LICF of \$9.4 million and withdrawals of \$4.0 million for claims were unchanged from the previous year.

The most recent actuarial projection of the retiree health care liability dated July 1, 2011, when compared to the VEBA Trust established to fund this liability, revealed that the liability is now 86.2 percent funded under GASB rules. This is higher than the 59.4 percent funding level from 2009, the date of the previous projection, and reflects the higher balance in the VEBA Trust due to investment gains experienced through July 1, 2011. The previous projection occurred during a two year interval that produced adverse investment results (the investment results will be discussed in greater detail later in this report). As a result, the ARC, as calculated by the actuaries, is lower than the health insurance claims paid by the University. The Medicare Retiree Drug Subsidy was able to offset the small investment loss in the VEBA Trust for fiscal year 2011-2012 which enabled the University to extend its record of fully-funding the ARC each year. Because of this, premiums to be paid by Ball State University employees and retirees did not have to be increased more than expected for the fiscal year beginning July 1, 2012. In other words, the well-funded VEBA Trust is resulting in lower premiums than would have been expected for active employees, retirees and spouses, and the University.

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

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

Using this Report

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

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

Financial Highlights

Following two consecutive years of investment losses for the Retiree Health and Life Insurance Plans, specifically of eight percent in fiscal year 2007-2008 and 21.8 percent in fiscal year 2008-2009, the Plans posted positive returns of 11.2 percent in fiscal year 2009-2010. This turnaround continued into fiscal year 2010-2011, resulting in a gain over the prior year of 21.1 percent, but market declines saw the total portfolio drop back with a 0.4 percent loss for fiscal year 2011-2012.

When compared to a "custom benchmark" reflecting the diversity of the portfolio and consisting of the MSCI AC World Index ex-U.S., the Russell 2000 Index, the Russell 1000 Index, the Barclays Gov't/Credit Intermediate Index, and the NCREIF ODCE Index, the custom benchmark recorded gains of 12.6 percent in 2010, gains of 24.1 percent in 2011, and 2.0 percent gains in 2012, due primarily to investor concerns about the economic conditions in Europe and Emerging Markets.

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

For fiscal year 2009-2010, the Retiree Health and Life Insurance Plans trailed both the median plan among peers and the custom index, by 2.3 percent and 1.4 percent, respectively. The following fiscal year, the Plans outperformed the median plan among peers by approximately 0.4 percent, but trailed the custom index by approximately three percent. For fiscal year 2011-2012, the Plans

underperformed the median plan among peers by approximately 1.9 percent and trailed the custom index by approximately 2.3 percent. As of June 2012, the universe of peers included 546 defined benefit plans with assets totaling \$669.0 billion.

When compared to the NACUBO (National Association of College and University Business Officers) Endowment Study for the same time period, the performance of the Retiree Health and Life Insurance Plans was as follows: in fiscal year 2009-2010, the Plans underperformed the average plan by 0.6 percent when compared to institutions with assets between \$51 million and \$100 million, 0.7 percent when compared to institutions with assets between \$101 million and \$500 million; in fiscal year 2010-2011, the Plans outperformed the average plan by 1.8 percent when compared to institutions with assets between \$51 million and \$100 million, 1.4 percent when compared to institutions with assets between \$101 million and \$500 million; in fiscal year 2011-2012, the Plans continued to outperform the average plan by 0.8 percent when compared to institutions with assets between \$51 million and \$100 million, 0.5 percent when compared to institutions with assets between \$101 million and \$500 million.

While the one-year results were disappointing, it should be noted that the investment policy for the VEBA Trust and the LICF focuses on a five-year horizon, with the expectation that the annualized total return will exceed a customized index made up of the various sector indexes for the various sectors in the asset allocation policy, as well as rank in the top 50.0 percent of a total pension fund universe. Over the past five years, the combined portfolio trailed the customized index slightly with returns of -0.8 percent, versus 0.9 percent for the customized index.

During that same time period, according to NACUBO, endowments with assets between \$51.0 million to \$100.0 million returned a negative one percent and endowments with assets between \$101.0 million and \$500.0 million returned a negative 0.7 percent. Over this same period, fixed income and domestic growth equity markets posted positive returns while domestic value and international equity markets posted negative returns. For the fiscal year, fixed income and large capitalization domestic equity markets had the best performance. Small capitalization domestic equity markets posted slightly negative returns, while international equity markets fell by double digits on European concerns. The performance of the strategies in the Plans was mostly in line with or ahead of their respective benchmarks, with the exception of one large capitalization domestic equity fund and the actively-managed small capitalization domestic equity funds.

It is helpful for perspective to look back at past years' performance numbers. In fiscal year 2006-2007, which was the last strong market prior to the downturn, the portfolio returned 18.0 percent versus the Hewitt Universe return of 16.9 percent and the custom index return of 17.9 percent. For the five-year period ending with fiscal year 2006-2007, the portfolio returned 12.4 percent versus 11.4 percent for the custom index. Hewitt Investment Group and the University continue to believe that the strategy, which is basically unchanged from 2007, is sound and will result in better results in the near future as the market continues to recover from its severe downturn in fiscal years 2007-2008 and 2008-2009. Strategically, no matter what the market, the intent is to hire good managers who will enable the University to achieve its long term objectives, rather than to "chase" short-term returns or to attempt to time the market.

Actuarial liability valuations are performed every two years, and the latest valuation, as of July 1, 2011, revealed that the total liability for the Retiree Health and Life Insurance Plan is now 87.3 percent funded, versus 61.5 percent funded in fiscal year 2008-2009. The plan has almost recovered to the 91.2 percent funding level calculated as of July 1, 2007. The recovery in funding is due to the upturn in the investment markets over the past three fiscal years. The plans remain well-funded for the future.

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

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

The following is a summary of the major components of net assets at June 30, 2012, 2011, and 2010.

<p style="text-align: center;"><u>Net Assets</u> As of June 30, 2012, 2011, and 2010</p>						
2012			2011			
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Assets:						
Cash and Short Term Investments	\$ 6,277,120	\$ 14,318	\$ 6,291,438	\$ 1,764,432	\$ 380,102	\$ 2,144,534
Accounts Receivable	2,873,133	608,742	3,481,875	2,845,269	536,204	3,381,473
Investments	149,249,971	20,048,237	169,298,208	154,539,148	21,061,638	175,600,786
Noncurrent Interest Receivable	-	-	-	-	44,557	44,557
Total Assets	<u>\$ 158,400,224</u>	<u>\$ 20,671,297</u>	<u>\$ 179,071,521</u>	<u>\$ 159,148,849</u>	<u>\$ 22,022,501</u>	<u>\$ 181,171,350</u>
Liabilities	<u>\$ 1,256,371</u>	<u>\$ 246,546</u>	<u>\$ 1,502,917</u>	<u>\$ 1,230,694</u>	<u>\$ 56,000</u>	<u>\$ 1,286,694</u>
Net Assets:						
Net Assets Held in Trust	<u>\$ 157,143,853</u>	<u>\$ 20,424,751</u>	<u>\$ 177,568,604</u>	<u>\$ 157,918,155</u>	<u>\$ 21,966,501</u>	<u>\$ 179,884,656</u>
2010						
	Retiree Health Insurance	Retiree Life Insurance	Totals			
Assets:						
Cash and Short Term Investments	\$ 9,091,799	\$ 1,297,700	\$ 10,389,499			
Accounts Receivable	2,543,670	694,392	3,238,062			
Investments	118,456,798	16,929,259	135,386,057			
Noncurrent Interest Receivable	-	24,399	24,399			
Total Assets	<u>\$ 130,092,267</u>	<u>\$ 18,945,750</u>	<u>\$ 149,038,017</u>			
Liabilities	<u>\$ 752,806</u>	<u>\$ 154,124</u>	<u>\$ 906,930</u>			
Net Assets:						
Net Assets Held in Trust	<u>\$ 129,339,461</u>	<u>\$ 18,791,626</u>	<u>\$ 148,131,087</u>			

Cash and Short Term Investments consist of cash and fixed income investments maturing within one year and reported on the investment manager and custodial reports. Cash and Short Term Investments increased at fiscal yearend 2011-2012, due to cash money market holdings by several Fund Managers. JP Morgan Fixed Income, Janus Forty, Eagle Small Cap, and CRM all held large money market holdings at June 30, 2012, ranging from \$700 thousand to \$1.5 million, as they awaited favorable investment opportunities.

Accounts Receivable consists primarily of accrued interest and dividends and amounts received by Ball State University but not yet transferred to the retiree plans. The balances have remained relatively consistent over the past three fiscal years.

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

Liabilities are primarily benefits payable at year end.

Net Assets Held in Trust - represents the balances at year end in the VEBA Trust, LICF, and the difference between the receivables from Ball State University and the retiree contributions versus the benefits payable and other liabilities.

Management's Discussion and Analysis

The following is a summary of the contributions, investment income, and deductions resulting in the changes in net assets for the years ended June 30, 2012, 2011, and 2010.

Change in Net Assets-Condensed Years Ended June 30, 2012, 2011, and 2010

	2012			2011		
	Retiree Health Insurance	Retiree Life Insurance	Totals	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	\$ 2,391,172	\$ 18,501	\$ 2,409,673	\$ 2,368,910	\$ 18,292	\$ 2,387,202
University Premiums	7,173,517	55,502	7,229,019	6,663,685	54,875	6,718,560
Total Premiums	\$ 9,564,689	\$ 74,003	\$ 9,638,692	\$ 9,032,595	\$ 73,167	\$ 9,105,762
Medicare Retiree Drug Subsidy	665,202	-	665,202	1,130,869	-	1,130,869
Contributions to VEBA and LICF	-	292,700	292,700	2,000,000	252,000	2,252,000
Net Investment Income	(861,675)	(32,088)	(893,763)	26,572,982	3,876,739	30,449,721
Benefits	(9,777,586)	(1,876,365)	(11,653,951)	(9,730,863)	(1,027,031)	(10,757,894)
Other Expenses	(364,932)	-	(364,932)	(426,889)	-	(426,889)
Increase in Net Assets	\$ (774,302)	\$ (1,541,750)	\$ (2,316,052)	\$ 28,578,694	\$ 3,174,875	\$ 31,753,569
Net Assets Beginning of Year	157,918,155	21,966,501	179,884,656	129,339,461	18,791,626	148,131,087
Net Assets End of Year	\$ 157,143,853	\$ 20,424,751	\$ 177,568,604	\$ 157,918,155	\$ 21,966,501	\$ 179,884,656

	2010		
	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	\$ 2,159,410	\$ 18,765	\$ 2,178,175
University Premiums	6,480,308	55,406	6,535,714
Total Premiums	\$ 8,639,718	\$ 74,171	\$ 8,713,889
Medicare Retiree Drug Subsidy	1,279,787	-	1,279,787
Contributions to VEBA and LICF	1,500,000	1,291,812	2,791,812
Net Investment Income	12,212,338	1,937,122	14,149,460
Benefits	(10,130,809)	(1,140,748)	(11,271,557)
Other Expenses	(333,641)	-	(333,641)
Increase in Net Assets	\$ 13,167,393	\$ 2,162,357	\$ 15,329,750
Net Assets Beginning of Year	116,172,068	16,629,269	132,801,337
Net Assets End of Year	\$ 129,339,461	\$ 18,791,626	\$ 148,131,087

Retiree Premiums and University Premiums reflect sharing of total premium cost per University policy. For Health Care, during fiscal year 2011-2012, the University premium share ranged from 71.0 percent to 90.0 percent, depending on the Health Plan. For fiscal year 2010-2011, the University premium share ranged from 70.0 percent to 90.0 percent, while for fiscal year 2009-2010, the University premium share was 75.0 percent. Premiums are paid into the University's health and life insurance accounts to help cover claims and administrative expenses.

The Medicare Retiree Drug Subsidy is paid each year to the University by Medicare in recognition of the fact that the University's retiree prescription drug benefit available to Medicare retirees is at least actuarially equivalent to the benefit available to them under Medicare Part D. As a result, Ball State University retirees covered by the University's retiree health care plan do not enroll in Medicare Part D. This subsidy recognizes savings incurred by the Medicare program as a result. The amount is utilized to offset a portion of retiree and University shares of the premiums for Medicare eligible retirees. In fiscal year 2011-2012, the amount of subsidy receivable was reduced to reflect timing differences in subsidy receipts, and subsidies recorded in previous years and deemed uncollectible.

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. Since benefits paid in fiscal year 2011-2012 on behalf of employees and their dependents exceeded the ARC, the University chose not to make an additional contribution to the VEBA Trust. An additional contribution of \$2.0 million was made to the VEBA Trust in 2011, and \$1.5 million was contributed in 2010. The University has reported these contributions as a prepaid expense of the University toward the funding of the retiree health care liability. In 2010, \$1.0 million was contributed to the LICF, in addition to the cash payouts selected by early retirees in lieu of retiree life insurance, as described in the next paragraph.

University employees who retire under the University's Early Retirement Program may choose to receive a cash payment in lieu of retiree life insurance. This payment, which amounts to 40.0 percent of the face value of the life insurance policy to which the retiree would be entitled, is paid by the University in two equal installments on January 31 of the calendar year following the calendar year in which retirement takes place and the next succeeding January 31. The University's consulting actuaries have determined that this payment constitutes a contribution to the LICF, a payment of benefits, and a source of funding for the ARC. For the year ended June 30, 2012, this payment totaled \$292,700; and for the years ended June 30, 2011, and June 30, 2010, the payments totaled \$252,000 and \$291,812 respectively.

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

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

	2012	2011	2010
Domestic Large Capitalization Equities	47.4%	50.5%	40.9%
Domestic Small Capitalization Equities	9.3%	9.0%	8.5%
International Equities	18.4%	14.8%	13.9%
Domestic Fixed Income (including short term)	24.9%	25.7%	29.3%
Private Closed-End Real Estate Investment Trust (REIT)	0.0%	0.0%	7.4%

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

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

For the fiscal year, as previously noted, the combined portfolio generated an overall loss of -0.2 percent, which put it in the 74th percentile (43rd percentile in 2011, 86nd percentile in 2010) of Hewitt Investment Group's predominantly pension fund universe, and fell short of the custom index calculated gain of 2.1 percent. The portfolios' policy objectives were not met in fiscal year 2011-2012. Before the economic downturn began in fiscal year 2007-2008, the portfolio's annualized returns for the previous five years placed it in the upper half of the Hewitt Universe. The portfolio met all of the policy objectives in 2007 and 2008, but fell below policy objectives beginning in 2009.

The volatile U.S. and world economic climate of 2012 resulted in investor concerns about economic conditions in Europe and Emerging Markets. This is reflected by negative returns by many of the portfolio's funds. Dodge and Cox U.S. Equity Separate Account (-0.6 percent, 67th percentile), Dodge and Cox Mutual Fund (-0.9 percent, 63rd percentile), Vanguard Small Cap Growth Index (-2.1 percent, 20th percentile), Eagle Small Cap Growth (-9.0 percent, 88th percentile), CRM Small Cap Value (-9.4 percent, 98th percentile), Dodge and Cox International Stock (-15.7 percent, 64th percentile), EuroPacific Growth (-12.6 percent, 33rd percentile), and DFA International Small Cap Value (-17.5 percent, 86th percentile) funds all reported negative returns in the portfolio for fiscal year 2011-2012 (before fees). The best performance relative to the benchmark and Hewitt Universe was turned in by EuroPacific Growth, (-12.6 percent, 33rd percentile) versus -14.6 percent for the MSCI AC World ex USA (Net) Index.

The funds with the largest absolute return were Vanguard Institutional Index and JP Morgan Intermediate Bond Fund, both returning 5.4 percent for the fiscal year (17th and 59th percentile, respectively) against similar returns by their respective benchmarks (S&P 500 and Barclays Intermediate U.S. Government/Credit). Janus Forty had similar results (4.9 percent, 18th percentile) although it fell below the Russell 1000 Growth Index of 5.8 percent. Cornerstone Concentrated 30 also placed in the 30th percentile with a return of 2.8 percent though it fell below the Russell 1000 Value Index of 3.0 percent. Diamond Hill Large Cap also fell below the same index, with a return of 0.5 percent (44th percentile).

The 2012 results were disappointing, as many of the managers continued to underperform compared to the benchmarks. During the fiscal year, we terminated a core bond fund and replaced it with an intermediate bond mutual fund. We also added one additional international small cap manager in fiscal year 2010-2011. We terminated our RREEF America REIT II and are awaiting entry into the UBS Realty investors Trumbull Property Fund. The University and Hewitt Investment Group believe that the remaining investments are desirable and their long-term performance will eventually exceed the University's objectives. As it periodically does, the University, with the assistance of Hewitt Investment Group, is reviewing its overall asset allocation strategy and considering the inclusion of additional investment strategies or managers within the existing strategies.

Required Supplemental Information

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

Schedules of Funding Progress

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

Life Insurance AAL again exceeded the assets in the LICF for the second consecutive year since the University began requesting this calculation, resulting in a Funded Ratio of 96.1 percent in 2011 and 82.1 percent in 2009. When combined with the Health Care results, the total funded ratio becomes 87.3 percent in 2011 and 61.5 percent in 2009. To the extent possible, once the LICF again achieves full funding, and without impairing the adequacy of the LICF, funds will likely be transferred to the VEBA Trust, as has happened on occasion in the past, to help with funding for retiree health insurance.

Schedules of Contributions from University and Other Entities

These schedules compare actual contributions to the ARC, which is an actuarial calculation of "normal cost" each year plus the annual amortization of UAAL. Actual contributions consist, in the case of Ball State University, of employer-paid claims plus any contributions to the VEBA Trust and/or the LICF. In the case of health insurance, the actual contributions were above the ARC, resulting in a percentage contributed of 118.0 percent. In addition, the Medicare Retiree Drug Subsidy increased the contributions above the ARC by 127.8 percent. For life insurance, contributions were made as cash payments to early retirees in lieu of life insurance, which resulted in 83.3 percent of the ARC being contributed in 2012.

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
2012	7.40%	6.80%	7.40%	5.00%	4.00%
2013	7.20%	6.80%	7.20%	5.00%	4.00%
2014	7.00%	6.70%	7.00%	5.00%	4.00%
2015	6.80%	6.60%	6.80%	5.00%	4.00%
2016	6.60%	6.60%	6.60%	5.00%	4.00%
2017	6.40%	6.40%	6.40%	4.90%	4.00%
2018	6.20%	6.20%	6.20%	4.90%	4.00%
2019	6.00%	6.00%	6.00%	4.80%	4.00%
2020	5.70%	5.70%	5.70%	4.80%	4.00%
2021	5.50%	5.50%	5.50%	4.70%	4.00%
2022	5.30%	5.30%	5.30%	4.70%	4.00%
2023	5.10%	5.10%	5.10%	4.60%	4.00%
2024	4.90%	4.90%	4.90%	4.60%	4.00%
2025	4.70%	4.70%	4.70%	4.50%	4.00%
2026+	4.50%	4.50%	4.50%	4.50%	4.00%

According to the actuaries, the earlier numbers represent recent experience with Ball State University's retiree population, while the later numbers consider the implication that the overall economy cannot sustain the current rates of increase in health care costs. Something will have to change in the way health care is priced and delivered. In all likelihood, it will be some combination of federal funding and mandates, incentives for healthy lifestyles, rationing of services, plus more direct consumer involvement and choice in the selection of treatment and the payment of health care expenses. In March of 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law, with the aim of providing insurance coverage to all Americans and reducing the overall cost of health care for all, including retirees through reductions in Medicare. Prior to that, we saw the establishment of Medicare Part D prescription drug coverage with subsidies to qualifying employer drug plans for retirees, as well as high-deductible health savings account health insurance plans that incentivize members to choose care options based on price as well as other factors. It will be a few years before we realize the full effects of the PPACA. Ball State had previously held "grandfathered" status with regard to the PPACA provisions, but the University has decided to forego this status as of July 1, 2012. Some early PPACA regulations, such as full health plan coverage for preventive care and increased age of dependents covered, will be enacted in the coming fiscal year.

The worst recession in decades may have officially ended in June 2009, but the effects are still being felt in the U.S. and across the globe. Fiscal years 2012, 2011 and 2010 still experienced tremendous volatility in the world markets. Since June 30, 2009, the investment markets have steadily improved, but are still weak. U.S. Gross Domestic Product (GDP) grew at a rate of 0.4 percent for the fourth quarter of 2012, which is the fourteenth straight quarter with growth, following five out of six quarters with falling GDP between January 2008 and June 2009. The decline in market values of residential and commercial property in the United States as well as a number of foreign countries has begun showing signs of recovery. Loan defaults and foreclosures have slowed. The result has been a continued slow economic growth in the United States and elsewhere. The U.S. unemployment rate remains stubbornly at 7.6 percent (March 2013), although well below the peak of 10.1 percent in October 2009. Complicating the picture has been increased spending and borrowing by governments world-wide, leading to fears of sovereign default on bonds as well as the possibility of inflation. At the same time, the continued slowing of economic growth has led to fears of deflation. This uncertainty has led to increased volatility in the investment markets. The longer this uncertainty persists, the more difficult it will be to maintain the current level of funding of the steadily increasing actuarial liability.

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

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

Requests for Information

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

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

Ball State University
Retiree Health and Life Insurance Plans
Statements of Net Assets
As of June 30, 2012 and 2011

	2012			2011		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
Assets:						
Current Assets:						
Cash and Short Term Investments	\$ 6,277,120	\$ 14,318	\$ 6,291,438	\$ 1,764,432	\$ 380,102	\$ 2,144,534
Receivables:						
Accrued Interest and Dividends	312,863	-	312,863	342,061	-	342,061
Retiree Contributions Receivable	110,700	13,176	123,876	25,562	12,978	38,540
Receivable from Ball State University	2,449,570	595,566	3,045,136	2,477,646	521,761	2,999,407
Miscellaneous Receivables	-	-	-	-	1,465	1,465
Total Receivables	\$ 2,873,133	\$ 608,742	\$ 3,481,875	\$ 2,845,269	\$ 536,204	\$ 3,381,473
Investments, at Fair Value:						
Fixed Income	\$ 35,703,224	\$ 5,267,974	\$ 40,971,198	\$ 38,087,244	\$ 5,893,266	\$ 43,980,510
Domestic Equity	84,958,998	10,930,444	95,889,442	93,272,824	11,906,277	105,179,101
International Equity	28,587,749	3,849,819	32,437,568	23,179,080	3,262,095	26,441,175
Total Investments	\$ 149,249,971	\$ 20,048,237	\$ 169,298,208	\$ 154,539,148	\$ 21,061,638	\$ 175,600,786
Noncurrent Assets:						
Interest Receivable	-	-	-	-	44,557	44,557
Total Assets	\$ 158,400,224	\$ 20,671,297	\$ 179,071,521	\$ 159,148,849	\$ 22,022,501	\$ 181,171,350
Liabilities:						
Current Liabilities:						
Accrued Expenses and Other Liabilities	\$ 24,525	\$ -	\$ 24,525	\$ 42,128	\$ -	\$ 42,128
Benefits Payable	1,231,846	246,546	1,478,392	1,188,566	56,000	1,244,566
Total Liabilities	\$ 1,256,371	\$ 246,546	\$ 1,502,917	\$ 1,230,694	\$ 56,000	\$ 1,286,694
Net Assets:						
Net Assets Held in Trust	\$ 157,143,853	\$ 20,424,751	\$ 177,568,604	\$ 157,918,155	\$ 21,966,501	\$ 179,884,656
Total Liabilities and Net Assets	\$ 158,400,224	\$ 20,671,297	\$ 179,071,521	\$ 159,148,849	\$ 22,022,501	\$ 181,171,350

See accompanying Notes to Financial Statements.

Ball State University
Retiree Health and Life Insurance Plans
Statements of Changes in Plan Net Assets
For the Year Ended June 30, 2012 and 2011

	2012			2011		
	Retiree Health Care	Retiree Life Insurance	Totals	Retiree Health Care	Retiree Life Insurance	Totals
<u>Additions:</u>						
<u>Contributions:</u>						
Retiree Premiums	\$ 2,391,172	\$ 18,501	\$ 2,409,673	\$ 2,368,910	\$ 18,292	\$ 2,387,202
Employer Matching Premiums	7,173,517	55,502	7,229,019	6,663,685	54,875	6,718,560
Medicare Retiree Drug Subsidy	665,202	-	665,202	1,130,869	-	1,130,869
Ball State University Contributions to Fund	-	292,700	292,700	2,000,000	252,000	2,252,000
Total Contributions	\$ 10,229,891	\$ 366,703	\$ 10,596,594	\$ 12,163,464	\$ 325,167	\$ 12,488,631
<u>Investment Income:</u>						
Interest and Dividends from Investments	\$ 3,603,377	\$ 518,074	\$ 4,121,451	\$ 3,416,641	\$ 417,546	\$ 3,834,187
Net Gain (Loss) from Sale of Investments	2,969,848	171,142	3,140,990	(4,672,017)	(844,045)	(5,516,062)
Unrealized Gains/(Losses) from Market Appreciation and (Depreciation)	(7,135,310)	(701,729)	(7,837,039)	28,228,792	4,343,597	32,572,389
Total Investment Income/(Loss)	\$ (562,085)	\$ (12,513)	\$ (574,598)	\$ 26,973,416	\$ 3,917,098	\$ 30,890,514
<u>Less Investment Expenses:</u>						
Investment Custodial Fees	\$ 142,431	\$ 15,508	\$ 157,939	\$ 134,954	\$ 30,267	\$ 165,221
Investment Management Fees	110,940	4,067	115,007	108,203	10,092	118,295
Investment Consulting Fees	55,989	-	55,989	170,871	-	170,871
Other Investment (Income)/Expenses	(9,770)	-	(9,770)	(13,594)	-	(13,594)
Total Investment Expenses	\$ 299,590	\$ 19,575	\$ 319,165	\$ 400,434	\$ 40,359	\$ 440,793
Net Investment Income/(Loss)	\$ (861,675)	\$ (32,088)	\$ (893,763)	\$ 26,572,982	\$ 3,876,739	\$ 30,449,721
Total Additions/(Deductions)	\$ 9,368,216	\$ 334,615	\$ 9,702,831	\$ 38,736,446	\$ 4,201,906	\$ 42,938,352
<u>Deductions:</u>						
Benefits	\$ 9,777,586	\$ 1,876,365	\$ 11,653,951	\$ 9,730,863	\$ 1,027,031	\$ 10,757,894
Administrative Expenses	255,540	-	255,540	268,849	-	268,849
Actuarial Expenses and Audit Fees	109,392	-	109,392	158,040	-	158,040
Total Deductions	\$ 10,142,518	\$ 1,876,365	\$ 12,018,883	\$ 10,157,752	\$ 1,027,031	\$ 11,184,783
Net Increase/(Decrease)	\$ (774,302)	\$ (1,541,750)	\$ (2,316,052)	\$ 28,578,694	\$ 3,174,875	\$ 31,753,569
<u>Net Assets:</u>						
Beginning of Year	157,918,155	21,966,501	179,884,656	129,339,461	18,791,626	148,131,087
End of Year	\$ 157,143,853	\$ 20,424,751	\$ 177,568,604	\$ 157,918,155	\$ 21,966,501	\$ 179,884,656

See accompanying Notes to Financial Statements.

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Ball State University
Retiree Health and Life Insurance Plans
Notes to Financial Statements
June 30, 2012 and 2011

Note A – Significant Accounting Policies

Reporting Entity

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

Health insurance at Ball State University is a self-funded plan that utilizes third party administrators for health and dental benefits and for prescription drug benefits. Each year, the Board of Trustees establishes premiums for the next fiscal year, of which premiums paid by the employees and retirees range between ten and 29 percent, depending on the health plan, and premiums paid by the University range between 71 and 90 percent. The premiums are intended to fully fund all claims, administrative costs, reserve adjustments, and contributions to a VEBA Trust established to partially fund health care costs for eligible retirees and their beneficiaries. The claims and applicable administrative costs of current retirees are paid from the self-funded plan, while the contributions to the VEBA Trust are intended to partially fund claims and administrative costs for retirees in the future. All of these payments count toward the Annual Required Contribution payment as calculated under GASB Statement No. 45, 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 (an irrevocable 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 the assets on deposit in the VEBA Trust and the LICF at fair value on June 30, 2012, and the assets contained in the operating auxiliary health and life insurance accounts that have not been deposited with the VEBA Trust and the LICF as of June 30, 2012. For reporting purposes, both amounts are combined and reported as Net Assets Held in Trust.

Note B – Investments

The plans rely on various investment managers hired by the University's Board of Trustees, with the advice of outside consultants, to prudently invest the amounts contributed, in accordance with IC 30-4-3.5, the Indiana Uniform Prudent Investor Act. These investment manager arrangements are in the form of mutual funds, separately managed accounts with securities in the possession of custodians other than the investment manager, a private investment trust, and a private closed-end real estate investment trust. Investments are reported by the managers and, in some cases custodial banks at fair value, which in most cases represents the published market value as of the close of business on the last business day of the accounting period. Where the value is expressed in currencies other than dollars, the exchange rate applicable to the date of the market valuation is used. Fixed income securities maturing within one year of the date of the financial statements are classified as short term investments. The fair value of the investment in the REIT is based on independent appraisals and internal valuations of recent acquisitions. The REIT publishes annual audited financial statements. The REIT was liquidated during the 2010-2011 fiscal year.

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

The portfolio's risk exposures are as follows:

1. Custodial Credit Risk, Deposits – Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, the VEBA Trust and/or the LICF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All of the cash in the Plans is invested in money market accounts sponsored by the applicable custodial bank. These accounts are neither insured nor collateralized. The plan does not have a custody credit risk policy for deposits. The uninsured, uncollateralized deposits in the custodial accounts were \$5.1 million for fiscal year 2011-2012 and \$1.6 million for fiscal year 2010-2011.
2. Custodial Credit Risk, Investments – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the VEBA Trust and/or the LICF would not be able to recover the value of its investment or collateral securities that are in the possession of another party. Since JPMorgan Asset Management holds all VEBA Trust investments in the name of the VEBA Trust or its nominee, and Bank of New York Mellon holds all LICF investments in the name of CIGNA, the investments are not exposed to custodial credit risk.
3. Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policies for the VEBA Trust and the LICF includes limiting securities rated below A by Standard & Poor's and Moody's to 15.0 percent due to downgrades only, with the further stipulation that securities that fall below BBB (Standard and Poor's) or Baa (Moody's) should be sold as soon as possible.

The following tables present the Standard and Poor's quality ratings of non-government-guaranteed fixed income assets in the VEBA Trust as of June 30, 2012 and 2011 and for the LICF as of June 30, 2011. In 2012, the fixed income holdings of the LICF were moved into a co-mingled mutual fund, and therefore not included in the disclosure below.

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities
Year Ended June 30, 2012

Standard & Poor's	Federal Agencies			
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations
AAA	\$ 96,927	\$ 2,449,623	\$ 11,535,102	\$ -
AA+	-	-	-	-
AA	-	-	-	10,142
AA-	-	-	-	-
A+	-	-	-	29,335
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
A	-	-	-	-
Total	\$ 96,927	\$ 2,449,623	\$ 11,535,102	\$ 39,477
Percent of All Fixed Income Assets	0.3%	6.4%	30.1%	0.1%

Standard & Poor's	Corporate Bonds & Notes		Foreign Bonds		Asset Backed Obligations
	Short Term	Long Term	Short Term	Long Term	
AAA	\$ -	\$ -	\$ -	\$ -	\$ 377,333
AA+	-	448,318	-	-	-
AA	-	300,269	-	271,280	-
AA-	-	213,522	-	342,175	-
A+	238,289	1,367,971	25,151	161,034	-
A	25,421	1,539,015	-	190,236	-
A-	635,604	2,058,622	41,264	678,476	-
BBB+	93,238	174,785	-	-	-
BBB	35,506	17,074	-	-	-
BBB-	-	16,405	-	-	-
BB-	-	-	-	-	-
NR	-	-	-	-	842,387
Total	\$ 1,028,058	\$ 6,135,981	\$ 66,415	\$ 1,643,201	\$ 1,219,720
Percent of All Fixed Income Assets	2.7%	16.0%	0.2%	4.3%	3.2%

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

Standard & Poor's	Federal Agencies			
	Bonds & Notes	Pass Through	Collateralized Mortgage Obligations	Foreign Government Obligations
AAA	\$ 457,634	\$ -	\$ 14,390,346	\$ -
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
AA	-	-	-	10,269
AA-	-	-	-	36,702
A+	-	-	-	27,600
A	-	-	-	-
Total	<u>\$ 457,634</u>	<u>\$ -</u>	<u>\$ 14,390,346</u>	<u>\$ 74,571</u>
Percent of All Fixed Income Assets	1.2%	0.0%	36.8%	0.2%

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

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

Standard & Poor's	Agency	Corporate Bonds		Mortgage Backed Securities	Collateralized Mortgage Backed Securities	Asset Backed Securities
		Short Term	Long Term			
AAA	\$ 95,365	\$ -	\$ 15,704	\$ 3,157,210	\$ 62,804	\$ -
AA+	-	-	49,450	-	-	-
AA	-	-	65,664	-	-	-
AA-	-	-	64,066	-	21,614	-
A+	-	-	126,215	-	-	-
A	-	-	329,745	-	-	10,675
A-	-	10,470	193,510	-	-	-
BBB+	-	-	121,049	-	-	9,799
BBB	-	-	115,323	-	-	-
BBB-	-	-	63,261	-	-	-
BB+	-	-	-	-	-	-
BB-	-	-	-	9,347	-	-
B+	-	-	-	-	-	1,761
B	-	-	-	9,329	-	-
CCC	-	-	-	3,431	-	3,512
D	-	-	-	-	-	9,450
NR	-	6,463	2,613	3,246	10,908	-
Total	\$ 95,365	\$ 16,933	\$ 1,146,600	\$ 3,182,563	\$ 95,326	\$ 35,197
Percent of All Fixed Income Assets	1.5%	0.3%	18.2%	50.7%	1.5%	0.6%

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 BC Aggregate Index. Similarly, the Investment Policy for the VEBA Trust portfolio states that the total portfolio duration should not deviate more than one year from the duration of the BCGC Intermediate Bond Index.

The following tables list the effective weighted average duration of fixed income investments in the LICF and the VEBA Trust at June 30, 2012 and 2011

LICF

Year Ended June 30, 2012

Fixed Income Security Type	Fair Value June 30, 2012	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	\$ -	0.0%	-
Federal Agency Securities	\$ -	0.0%	-
Corporate Bonds	\$ -	0.0%	-
Mortgage Backed Securities	\$ -	0.0%	-
Collateralized Mortgage Backed Securities	\$ -	0.0%	-
Asset Backed Securities	\$ -	0.0%	-
Cash and Money Market	\$ 14,318	0.3%	-
Intermediate Bond Trust Fund	\$ 5,267,974	99.7%	-
Total		<u>100.0%</u>	

LICF

Year Ended June 30, 2011

Fixed Income Security Type	Fair Value June 30, 2011	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Securities	\$ 1,337,780	21.4%	6.3
Federal Agency Securities	\$ 95,365	1.5%	5.6
Corporate Bonds	\$ 1,163,533	18.5%	6.0
Mortgage Backed Securities	\$ 3,182,563	50.7%	3.7
Collateralized Mortgage Backed Securities	\$ 95,326	1.5%	1.8
Asset Backed Securities	\$ 35,197	0.6%	2.1
Cash and Money Market	\$ 364,847	5.8%	-
Total		<u>100.0%</u>	

VEBA Trust
Year Ended June 30, 2012

Fixed Income Security Type	Fair Value June 30, 2012	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	\$ 8,822,492	23.1%	4.4
U.S. Treasury Strips	\$ 3,880,874	10.2%	4.6
Federal Agency Bonds and Notes	\$ 96,927	0.3%	4.5
Federal Agency Collateralized Mortgage Obligations	\$ 11,535,102	30.1%	2.3
Federal Agency Pass Through	\$ 2,449,623	6.4%	1.4
Government National Mortgage Assoc Pools	\$ 11,638	0.0%	3.8
Asset Backed Obligations	\$ 1,219,720	3.2%	1.3
Foreign Bonds	\$ 1,709,616	4.5%	3.6
Foreign Government Obligations	\$ 39,477	0.1%	3.4
Corporate Bonds and Notes	\$ 7,164,039	18.7%	3.7
Cash and Money Market	\$ 1,288,776	3.4%	-
Total		<u>100.0%</u>	

VEBA Trust
Year Ended June 30, 2011

Fixed Income Security Type	Fair Value June 30, 2011	Percent of All Fixed Income Assets	Weighted Average Duration (Years)
U.S. Treasury Bonds and Notes	\$ 9,339,739	23.7%	4.5
U.S. Treasury Strips	\$ 3,626,789	9.3%	5.0
U.S. Treasury Receipts	\$ 91,390	0.2%	8.4
Federal Agency Bonds and Notes	\$ 457,634	1.2%	6.3
Federal Agency Collateralized Mortgage Obligations	\$ 11,075,859	28.3%	3.6
Federal Agency Pass Through	\$ 3,314,487	8.5%	2.5
Government National Mortgage Assoc Pools	\$ 13,002	0.0%	3.0
Asset Backed Obligations	\$ 1,273,101	3.2%	1.8
Foreign Bonds	\$ 1,554,476	4.0%	4.3
Foreign Government Obligations	\$ 74,571	0.2%	4.4
Corporate Bonds and Notes	\$ 7,443,687	19.0%	4.1
Cash and Money Market	\$ 934,391	2.4%	-
Total		<u>100.0%</u>	

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.

The following tables present the Foreign Currency Risk for the plan assets for the VEBA Trust and LICF for the year ended June 30, 2011 and 2012. In 2012, the fixed income holdings of the LICF were moved into a co-mingled mutual fund, and therefore not included in the disclosure below.

Foreign Holdings
VEBA Trust and LICF
Year Ended June 30, 2012

<u>Country</u>	<u>Fixed Income</u>	<u>Equities</u>
Australia	\$ -	\$ 864,542
Austria	-	188,070
Belgium	-	352,848
Canada	-	1,500,531
Denmark	-	587,145
Emerging Markets	-	5,386,811
Finland	-	492,242
France	-	2,825,062
Germany	-	2,158,652
Greece	-	47,079
Hong Kong	-	706,162
Ireland	-	153,343
Israel	-	180,073
Italy	-	658,188
Japan	-	5,638,713
Mexico	-	76,655
Netherlands	-	1,412,582
New Zealand	-	42,948
Norway	-	189,352
Portugal	-	35,080
Singapore	-	189,688
Spain	-	434,003
Sweden	-	909,210
Switzerland	-	3,244,872
United Kingdom	-	6,248,965
	\$ -	\$ 34,522,816

Foreign Holdings
VEBA Trust and LICF
Year Ended June 30, 2011

Country	Fixed Income	Equities
Australia	\$ 15,964	\$ 38,957
Austria	-	387,416
Belgium	-	77,914
Bermuda	5,552	-
Canada	17,508	1,018,072
Denmark	-	220,755
Emerging Markets	-	3,588,669
Finland	-	3,292,863
France	-	643,814
Germany	5,255	4,786,586
Greece	-	64,928
Hong Kong	-	444,998
Ireland	-	1,246,619
Israel	-	77,914
Italy	-	2,180,692
Japan	-	1,632,180
Luxembourg	12,677	-
Netherlands	28,889	240,790
Norway	-	626,327
Portugal	-	90,899
Singapore	-	286,336
Spain	-	2,001,120
Sweden	-	587,815
Switzerland	-	1,501,359
United Kingdom	39,378	501,442
	<u>\$ 125,224</u>	<u>\$ 25,538,465</u>

Note C – Derivatives

The investment guidelines strictly limit derivatives as follows:

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

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

Note D – Contributions and Reserves

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

Note E – Description of Plans

The University's regular full-time employees may become eligible for retiree health and life insurance coverage if they retire from the University after accruing the required years of service (15 years at age 62; 15 years at age 50 for those hired before July 1, 2009; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2012, out of a total of 3,072 (3,021 in 2011) benefits eligible active employees, 890 (904 in 2011) had fulfilled the age and service requirements for these retiree benefits. As of June 30, 2012, there were 1,870 retired employees, spouses and surviving spouses (1,843 in 2011) covered by retiree health insurance while 975 retired employees (979 in 2011) were covered by retiree life insurance. Employees receiving benefits and whom have successfully fulfilled the age and service requirements to qualify for retiree health and life insurance must enroll in the plan before they retire or are terminated. If the election is not requested at the time of retirement or termination, the employee will not be eligible to participate in the plans. There are no provisions for accepting late elections.

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

For the year ended June 30, 2012, retirees contributed \$2.4 million (\$2.4 million in 2011) in premiums for health care coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$7.2 million (\$6.7 million in 2011) as its 75.0 percent requirement. Monthly premiums paid by retirees not eligible for Medicare ranged from \$36.83 for single coverage in the least expensive plan option to \$546.63 for family coverage in the most expensive plan option. Most non-Medicare retirees paid \$210.58 per month for single coverage and \$546.63 per month for family coverage, under the Low Deductible PPO plan option, or \$84.04 per month for single coverage and \$218.16 per month for family coverage, under the High Deductible Wellness plan option. Medicare-eligible retirees and spouses each paid \$88.16 for medical and prescription drug coverage and \$8.38 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, 2012, retirees contributed \$18.5 thousand (\$18.3 thousand in 2011) in premiums for life insurance coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$55.5 thousand (\$54.9 thousand in 2011) 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:

Schedules of Funding Progress

		Actuarial		Unfunded			UAAL as
	Valu- ation Date	Value of Assets	Accrued Liability (AAL)	AAL (UAAL)	Funded Ratio	Covered Payroll	a % of Covered Payroll
Health	7/1/11	\$ 156,645,642	\$ 181,683,897	\$ 25,038,255	86.2%	\$ 157,397,746	15.9%
Life	7/1/11	21,390,012	22,261,030	871,018	96.1%	\$ 157,397,746	0.6%
Total		<u>\$ 178,035,654</u>	<u>\$ 203,944,927</u>	<u>\$ 25,909,273</u>	87.3%	\$ 157,397,746	16.5%
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	16,546,332	20,150,137	3,603,805	82.1%	\$ 151,120,585	2.4%
Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%

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

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

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

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

Ball State University
Retiree Health and Life Insurance Plans
Required Supplemental Information
June 30, 2012

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	7/1/11	\$ 156,645,642	\$ 181,683,897	\$ 25,038,255	86.2%	\$ 157,397,746	15.9%
Life	7/1/11	21,390,012	22,261,030	871,018	96.1%	\$ 157,397,746	0.6%
Total		<u>\$ 178,035,654</u>	<u>\$ 203,944,927</u>	<u>\$ 25,909,273</u>	87.3%	\$ 157,397,746	16.5%
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	16,546,332	20,150,137	3,603,805	82.1%	\$ 151,120,585	2.4%
Total		<u>\$ 130,694,064</u>	<u>\$ 212,345,787</u>	<u>\$ 81,651,723</u>	61.5%	\$ 151,120,585	54.0%
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%

Schedules of Contributions from University and Other Entities

Year Ended June 30	Health Care				Life Insurance	
	Annual Required Contribution	Percentage Contributed	Federal Subsidy	Total Percentage Contributed	Annual Required Contribution	Percentage Contributed
2012	\$ 6,751,195	118.0%	\$ 665,202	127.8%	\$ 446,152	83.3%
2011	\$ 10,866,968	92.4%	\$ 1,130,869	102.8%	\$ 455,400	64.3%
2010	\$ 10,695,791	96.1%	\$ 1,279,787	108.0%	\$ 538,920	237.2%
2009	\$ 7,772,370	114.8%	\$ 1,000,928	127.7%	\$ 152,118	223.1%
2008	\$ 6,674,483	194.4%	\$ 968,156	208.9%	\$ -	-
2007	\$ 7,231,271	120.5%	\$ 836,322	132.1%	\$ 74,559	387.2%

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