

# FINANCIAL REPORT

Year Ended June 30, 2012





To

The President and Board of Trustees

Ball State University

This financial report presents

the financial position of

Ball State University at June 30, 2012,

and the results of activities for

the year then ended.

Randall B. Howard  
Vice President for Business Affairs  
and Treasurer

February 8, 2013

This financial report has been prepared  
by the Office of University Controller  
Ball State University, Muncie, Indiana 47306

Ball State University provides equal opportunity to all students and applicants for admission in its education programs, activities, and facilities without regard to race, religion, color, sex (except where sex is a bona fide qualification), sexual orientation, physical or mental disability, national origin, ancestry, or age.

Ball State University provides equal opportunity to all employees and applicants for employment in its recruitment, hiring, retention, promotion, tenure, transfer, layoff, return from layoff, training, and other employment decisions and in its compensation and benefits programs without regard to race, religion, color, sex (except where sex is a bona fide occupational qualification), sexual orientation, physical or mental disability, national origin, ancestry, age, or citizenship (for U.S. citizens and protected lawfully-admitted aliens).

The University also takes affirmative action to employ and advance minorities, women, qualified disabled persons, and qualified disabled veterans and veterans of the Vietnam era. Information concerning the University's affirmative action programs can be obtained from the Office of University Compliance, Ball State University, Muncie, IN 47306.

Each line administrator is responsible for ensuring that educational and employment decisions are made and implemented in accordance with the University's equal opportunity and affirmative action policy. All persons involved in the decision-making process, including members of faculty and other employee committees, shall act in a nondiscriminatory manner. The Office of University Compliance is responsible for developing, coordinating, and implementing policies and procedures for institutional compliance with all applicable federal and state equal opportunity laws and regulations and for preparing and monitoring compliance with required affirmative action programs.

Complaints regarding unlawful discrimination should be filed within 45 calendar days following the alleged act or incident giving rise to the complaint in the Office of University Compliance in accordance with the "Ball State University Equal Opportunity and Affirmative Action Complaint Investigation Procedure and Appeal Process." A copy of this document may be obtained by contacting the Office of University Compliance.

The President will review the University's equal opportunity and affirmative action policy and programs at least once each year, measure progress against the objectives stated in the affirmative action programs, and report findings and conclusions to the Board of Trustees.

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

Jo Ann M. Gora



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF BALL STATE UNIVERSITY, MUNCIE, INDIANA

We have audited the accompanying basic financial statements of Ball State University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note A, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ball State University, as of June 30, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2012, on our consideration of the University's internal control over financial reporting and 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 results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) and the Other Post-Employment Benefits Retiree Health and Life Insurance Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Introductory Section, Trustee and University Officers, and Supplemental Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section, Trustee and University Officers, and Supplemental Information have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

December 20, 2012

STATE BOARD OF ACCOUNTS  
*State Board of Accounts*

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# Ball State University Management's Discussion and Analysis June 30, 2012

## Introduction

Ball State University, located in Muncie, Indiana, was founded in 1918 as the Indiana State Normal School, Eastern Division. The Ball brothers, a prominent Muncie industrial family, had acquired the land and buildings of a private normal school and donated the property to the State of Indiana. The State, in turn, transferred control of the school to the Board of Trustees of the Indiana State Normal School. In 1929, the Indiana General Assembly separated the Muncie campus from Indiana State Normal School, naming the Muncie campus Ball State Teachers College. In 1965, the General Assembly renamed the institution Ball State University, in recognition of its significant growth in enrollment and physical facilities, the variety and quality of its educational programs and services, and in anticipation of the much broader role it would be expected to assume in the future. The University is governed by a nine-member Board of Trustees, which includes a full-time student and two members nominated or selected by the Ball State University Alumni Association. All members of the Board are appointed by the Governor of Indiana to four-year terms, except for the student member, who is appointed to a two-year term.

The University is divided into seven academic colleges, offering six associate-level programs, 175 undergraduate degree programs, 103 masters-level programs, 17 doctoral-level programs and two specialists programs. Ball State is fully accredited



**Group of Students Working in the David Letterman Building**

by the North Central Association of Colleges and Schools (Higher Learning Commission of the North Central Association of Colleges and Schools). In addition, various schools, departments and programs are accredited by numerous other professional agencies, licensing boards, and state agencies. The University also operates the state's only K-12 laboratory school, as well as the Indiana Academy for Science, Mathematics and Humanities, the state's only residential high school for gifted and talented students. Enrollment for Fall 2011 totaled 19,526 full-time equivalent students from a total headcount of 22,147, an increase of 64 students over the prior year. On-campus

enrollment totaled 17,405 full-time equivalent students from a total headcount of 18,241. The University provides on-campus housing in residence halls and apartments for nearly 7,000 students. As of the beginning of the 2011-12 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. The campus facilities include over 110 buildings totaling approximately seven million gross square feet on over 1,000 acres.

What follows is the Ball State University Financial Report for the year ended June 30, 2012, an objective record of the University's stewardship of its human, physical and financial resources. Ball State University's management has prepared and is responsible for the completeness and fairness of the financial statements and the related footnote disclosures included in this report, along with this discussion and analysis. The discussion and analysis is designed to provide an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions.

### **Using this Report**

This financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows, prepared in accordance with *Statement No. 35 of the Governmental Accounting Standards Board, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, an Amendment of GASB Statement No. 34*, as well as subsequent applicable statements from the GASB. These financial statements focus on the financial condition, results of operations, and cash flows of the University as a whole. Important features of these statements, which are mandated by the Governmental Accounting Standards Board, include:

- Revenues that are charges for services and goods, including tuition and fees and non-capital grants, are recorded as operating revenues. This means that state appropriations, which are used primarily for operations, are required to be shown as non-operating revenue.
- Scholarship allowances are required to be recorded in three different places: as a reduction to tuition and fees, as a reduction to room and board and as an operating expense. The user must total the three amounts in order to ascertain the total scholarship aid received by students from the University. Not included in these amounts are scholarship aid received directly by students, as well as loan and work-study aid.
- Federal and State Scholarships and Grants received by the University, the proceeds of which are reported as a reduction of operating income, are reported as non-operating revenue.
- Capital assets include construction in progress and infrastructure, as well as completed capital projects and capital acquisitions.

This financial report also includes, in addition to the basic financial statements referred to above, management's discussion and analysis, the report of independent auditors, notes to the financial statements and supplemental information. Included also, in accordance with GASB Statement No. 39, separately presented, are the financial statements and significant notes to the financial statements for the Ball State University Foundation. The Ball State University Foundation is a separate, not-for-profit corporation which solicits, collects and invests donations for the sole benefit of Ball State University. The Foundation's financial statements are presented in accordance with the reporting principles of the Financial Accounting Standards Board and therefore are not comparable to those of the University.

### **Current Economic Climate**

The National Association of State Budget Officers (NASBO) reported in the spring of 2012 that state fiscal year conditions were continuing to improve. Overall state revenues were projected to increase in fiscal year 2012-13 by 4.1 percent. In Indiana, fiscal year 2012-13 revenues are projected to increase by 2.2 percent.

The State of Indiana closed its books on fiscal year 2011-12 showing general fund tax revenue increases of 6.4 percent over fiscal year 2010-11 and a surplus in excess of \$2.1 billion, or 15.7 percent of expenditures, compared to the national average of 6.5 percent. According to NASBO data, this ranks Indiana in the top five in the country in reserve balances as a percentage of expenditures.

The national unemployment rate dropped from 9.1 percent to 8.2 percent between June 2011 and July 2012, down from the peak of 10.0 percent in October of 2009. Indiana's unemployment rate dropped from 10.2 percent to 8.0 percent during the same period of time. Indiana has seen the strongest growth in employment in the U.S. Midwest. During state fiscal year 2011-12, U.S. GDP was positive, growing at 4.1 percent for the 2012 calendar year. Consumer Confidence increased from 57.6 percent in July 2011 to 62.7 percent in July 2012, and has been on an upward trend since.

## Strategic Plan

Ball State University's strategic plans for 2007-2012 and 2012-2017 are designed to enhance the distinctive opportunities offered by the University by emphasizing its entrepreneurial approach to learning, scholarship, and civic engagement. The University has a great tradition of faculty mentoring students by working with them side-by-side on the important issues of the day. The University will soon implement its new strategic plan. The 2007-2012 strategic plan had four major initiatives to build on Ball State's past and present strengths and successes.

First, the cornerstone of the 2007-2012 plan is the offering of relevant Immersive Learning opportunities to each undergraduate student. Immersive Learning pulls together interdisciplinary student teams that solve problems for our partners such as Indiana businesses and communities. The result is a final product that adds lasting value to our partners. Students have created business

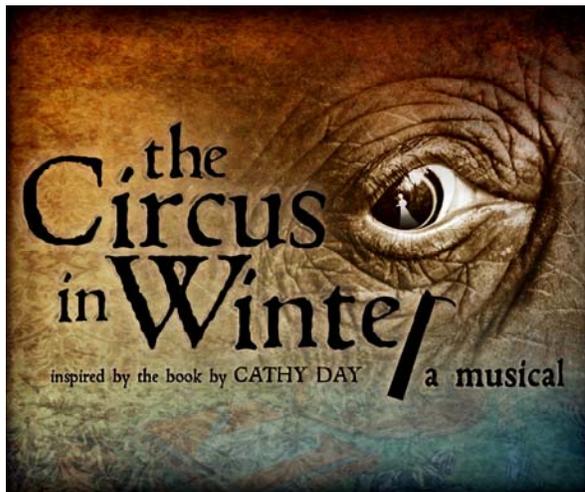


**Student Working with Emerging Media**

plans, websites, documentaries, content and applications for emerging media, publications, and much more. The Immersive Learning experiences provide important services to people across the state, building strong partnerships with businesses and communities and proving Ball State's value to the citizens of Indiana. In addition to benefiting the partner organization, Immersive Learning opportunities advance students' careers by helping them define a career path, make connections to a profession or industry, and show prospective employers real-world experience.

Immersive Learning experiences differentiate Ball State from other colleges and universities. This distinctiveness is critical to the health of the University. It is the key to healthy enrollment, quality students, and external support because it allows the University to clearly articulate its vision and stand apart from the competition.

One example of an Immersive Learning project is Sports Link. An Emmy Award-winning program, Sports Link allows students to produce sports-related content for the University's multiple platforms such as radio, television, and the Internet as well as a variety of mobile communications formats. Students repackage the feature stories they create for local use at Ball State and send them to local news stations and outlets in the hometown of the featured player—on any platform the station may require. The students are also reaching a national audience. Ball State is the only University where undergraduates produce broadcast content for Fox College Sports, bringing their work to the top 25 television markets. These students also managed social media for March Madness Live for Turner Sports Interactive, Inc. and CBS Sports.



**An Immersive Learning Project**

As another example of an Immersive Learning project, fourteen Ball State students adapted Cathy Day's Hoosier novel *The Circus in Winter* into an original musical that has won a series of national accolades, including honors at the National Kennedy Center American College Theater Festival and inclusion in the National Alliance for Musical Theatre's 2012 Festival of New Musicals.

Since the strategic plan implementation in 2007, 45 academic departments in all seven colleges coordinated over 1,000 Immersive Learning projects involving more than 16,000 students. Many of those projects stimulated economic development and quality-of-life improvements throughout the state.

A major initiative of the strategic plan is to attract, retain, and enroll a more selective and diverse student body. For Fall 2011, the average on-campus freshman SAT score was

1,582, a 43 point increase from Fall 2006. Honors College enrollment included 339 freshmen, nearly nine percent of the freshman class, a more than 27.0 percent increase from the 2006 class. In addition, while only 31.3 percent of Indiana's high school graduates in 2011 earned Academic Honors Diplomas, 62.1 percent of Ball State's 2011 incoming class earned this distinction, an increase of about 33.0 percent since the 2006 class. In terms of diversity, the percentage of minority students in the freshmen cohort for Fall 2011 was 13.8 percent, an increase of about 60.0 percent from the 2006 class.

Total enrollment for Fall 2011 was a record 22,147. The increases in selectivity and diversity have come during a period that has also seen increases in overall enrollment. Applications for Fall 2012 exceeded 14,300.

Recruitment of higher quality and better prepared students leads to better retention rates. Retention of first-year students who returned as sophomores for the Fall 2011 was 79.4 percent, up 4.7 percentage points since the Fall of 2006. This success is reflected in *U.S. News & World Report's* recognition of the University's first-year programs for the eighth year in a row in 2011.

It is expected that higher quality students will also develop into graduates who will serve as ambassadors for the quality and uniqueness of a Ball State education. It is further anticipated that these ambassadors will increase the University's local and national reputation and encourage other high quality prospects to seek admission.

Another initiative of the strategic plan focuses on increasing the number of nationally recognized faculty and academic programs. The quality and value of a Ball State education is outstanding. Increases in national rankings and recognition should reinforce this fact to external audiences and promote the University's brand among prospective students. The number of nationally ranked programs continues to increase, and many of these are discussed in more detail in the next section of this report.

This increase is reflected in the rising number of Ball State students earning major national scholarships. Between 2006 and 2012, 52 students and recent graduates received 53 major national scholarships and fellowships. (In contrast, three such awards were received in 2004.) In addition, the University had three Rhodes Scholarship finalists and a national Olmsted Scholarship finalist.

Finally, the plan sought to create a vibrant and supportive campus atmosphere. A part of reaching this strategic goal is the further development and expansion of the campus community, construction of new facilities and the renovation of existing campus facilities to best support learning, scholarship, institutional effectiveness and quality of life. Several major capital projects were completed, including the new 400,000-plus square foot Student Recreation and Wellness Center, the 600-plus bed Thomas J. Kinghorn Residence Hall, the Neely Avenue renovation, the Marilyn K. Glick Center for Glass, and the A. Umit Taftali Center for Capital Markets and Investing.

The University will soon implement a strategic plan to guide it through 2017. Formulated by a campus-wide task force, the plan builds on the accomplishments achieved between 2007 and 2012. Its four key goals are providing distinctive, high-quality educational experiences; becoming a recognized leader for educational and disciplinary innovation; investing in an increasingly vibrant and integrated University community; and advancing Indiana through student engagement and faculty expertise.

Later sections of this report will go into more detail on how long-term financial planning has enabled several major initiatives in the 2007-2012 strategic plan, titled Education Redefined, such as increasing student selectivity, attracting key faculty and administrative personnel, upgrading administrative software and technology, and the utilization of net capital assets for planned new construction and renewal projects. Through fiscal year 2011-12, in spite of the difficult financial environment, the University has spent nearly \$18.3 million on strategic plan initiatives. Of that number, over \$12.0 million has been reallocated from other purposes to fund the Strategic Plan. Reallocations have come from savings in areas such as health care and other benefit restructuring, energy efficiencies, foregoing increases in salaries, hiring freezes and many other administrative savings.

## Public Recognition

As pointed out previously, increasing the number of nationally recognized faculty and academic programs was a goal of the



**Students Working in the Center for Media Design**

Education Redefined strategic plan. These external recognitions promote the Ball State brand to prospective students and faculty. It is an honor to be recognized and further validates the efforts being undertaken by the University.

Since 2006, the University and its academic programs have had more national rankings and recognitions, raising the profile and prestige of a Ball State education. In academic year 2011-12, Ball State ranked eighth among “up-and-coming” colleges and universities by *U.S. News & World Report*, placing the University among institutions “that recently made the most promising and innovative changes in the

areas of academics, faculty, student life, campus, or facilities.” Plus, The Princeton Review named Ball State one of the best universities in the Midwest for the seventh year. These recognitions follow a highly successful academic year 2010-11, when Ball State’s classification by the Carnegie Foundation for the Advancement of Teaching was elevated to a Research University (high research activity RU/H), placing the University in the company of Boston College, Clemson University, and College of William and Mary, among others. About that time, the University was also ranked sixth in the nation for improvement in graduation rates among public research institutions between 2001 and 2008 by *The Chronicle of Higher Education*.

Ball State has also achieved recognition for its achievements in emerging media, including the 2012 New Media Consortium Center of Excellence Award, coverage by *The Chronicle of Higher Education* of the Emerging Media Living-Learning Community in the Johnson Complex, multiple awards from TechPoint, a 2010 W3 Silver Award, being named the 2009 Academic Institution of the Year by the Mobile Marketing Association, and the iMedia faculty earning second place to Harvard University in AT&T’s Big Mobile on Campus Challenge.

In addition, the University has been lauded for its commitment to sustainability. In *The Princeton Review’s Guide to 322 Green Colleges: 2012 Edition*, Ball State was recognized for the third year. It is the first public institution in Indiana listed among the most environmentally responsible colleges and universities in the U.S. and Canada. Ball State’s geothermal conversion project continues to attract praise from national media outlets, other leading universities, and the highest levels of state and national government. In fact 50 universities, cities and other entities have visited or contacted the University to learn more about our geothermal project. In the December 2009 issue of *Architect Magazine*, Ball State was listed among six universities committed to social justice. The University was also named a Military Friendly School in 2011 and 2012 by *G.I. Jobs*, placing it in the top 20.0 percent of all schools nationwide, and one of only 60 Military Friendly Universities by *Military Advanced Education Magazine* in 2009.

Several academic programs also have been nationally recognized and ranked in their respective fields. For example, the entrepreneurship program has been ranked among the top 15 programs since 1999 by *U.S. News & World Report*. The magazine also listed Military 2 Market (M2M), part of the entrepreneurship program, first among “10 College Classes That Impact the Outside World,” putting it in the same company as Villanova and Carnegie Mellon universities, and *Entrepreneur*. The Princeton Review ranked the program in the top 25 in 2009.

Other programs ranked or recognized in recent years include Accounting, Architecture, Chemistry, Center for Information and Communication Sciences, Communication Studies, Counseling Psychology, Educational Leadership, Educational Studies, English, Family and Consumer Sciences, Finance, Journalism, Landscape Architecture, Marketing and Management, Music, Nursing, Philosophy and Religious Studies, Physics and Astronomy, ROTC, Speech Language Pathology and Audiology, Telecommunications, Theatre and Dance, and Urban Planning.

Some programs, among them Educational Leadership, Landscape Architecture, Accounting, and Music, have achieved national recognition by respected publications for multiple years.



**An Audio Board in Telecommunications**

Here are just a few additional examples of recent rankings and recognitions:

- 2010 is the second year the Annual Survey of Accounting Professors by *Public Accounting Report* ranked the accounting programs in the top 25 among the nation's midsize colleges and universities. The undergraduate program ranked 19th while the graduate program placed 24th.
- The landscape architecture program earned the highest distinction in the 2010 edition of Design Intelligence's *The Cramer Report: America's World-Class Landscape Architecture Schools*, placing it with Cornell University, Harvard University, and Virginia Polytechnic Institute and State University.
- In 2010, *U.S. News & World Report* ranked the online master's program in nursing as the 11th largest in the nation.
- *U.S. News & World Report* ranked four Ball State on-line programs in the top 20:
  - No. 7 in student services and technology for online bachelor's degree programs
  - No. 8 in faculty credentials and training for online graduate programs in business
  - No. 13 in admission selectivity for online graduate programs in nursing
  - No. 17 in student services and technology for online graduate programs in education (teacher and administrator preparation).
- The School of Music was again recognized by *In Tune* magazine in its "Best Music Schools" 2010 listing, along with other elite institutions such as Juilliard, Oberlin, and the Boston Conservatory.
- The educational leadership programs were ranked among the top 20 in the nation by Leadership Excellence magazine. The programs have been ranked since 2005.
- Ball State students and faculty have won 39 Emmys along with 114 regional Emmy nominations.
- *Stance: An International Undergraduate Philosophy Journal* was honored in 2010 by the American Philosophical Association/Philosophy Documentation Center with the Prize for Excellence and Innovation in Philosophy Programs.

## **Financial Highlights**

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2012, as compared to the previous year. Net assets increased by \$36.3 million, due primarily to an increase in capital assets net of related debt of \$39.6 million, some of which was offset by a reduction in restricted net assets for construction of \$21.8 million. Unrestricted net assets also increased by \$21.9 million.

The current ratio for the University, which is calculated by dividing current assets by current liabilities, increased from 3.88 to 1 at June 30, 2011, to 4.72 to 1 at June 30, 2012. This ratio measures the University's ability to meet short term obligations with short term assets. One of the most basic determinants of clear financial health is the availability of expendable net assets to cover debt should it become necessary to settle those debt obligations. The viability ratio measures the University's ability to fund these long-term obligations. At June 30, 2012, the University's viability ratio was 1.59 to 1, up slightly from the June 30, 2011 viability ratio of 1.52 to 1. A ratio above 1 to 1 indicates that the University is able to respond to adverse conditions as well as attract capital from external resources and fund new objectives.

## Appropriations, Gifts and Grants

State operating appropriations, including the Entrepreneurial College line item and excluding any ARRA funds received, were \$2.2 million less than fiscal year 2010-11. While these reductions are significant, mission critical programs as outlined in the



**The David Owsley Museum of Art**

Strategic Plan have not been affected, nor have programs directly affecting the academic experience of students.

The University's Sponsored Programs Office garnered over \$14.1 million in grant awards, contracts awarded to University Centers and Institutes, and funding to the Ball State University Foundation. The Sponsored Programs Office continues to pursue or exceed the goals targeted in the University's strategic plan in the areas of funding for scholarly work, number of proposals submitted and number of faculty submitting one or more proposals. Notable funded

proposals in fiscal year 2011-12 include significant grants from the U.S. Department of State for international projects in Afghanistan and Jordan, bringing international students to campus to learn about new media from the National Institutes of Health to study the effects of aging and life-long exercise on skeletal muscle health, and from the Professor Garfield Foundation for migrant education programs. Grant awards may include cash received in advance, letters of credit, and cost reimbursable projects.

During fiscal year 2011-12, supporters of Ball State University contributed private gifts to the Ball State University Foundation totaling \$9.3 million. In addition to funds received during the fiscal year, the University has also obtained several major multi-year commitments in support of its capital campaign and strategic plan. These gifts will be reflected in future fiscal year giving reports.

## Other Postemployment Benefits

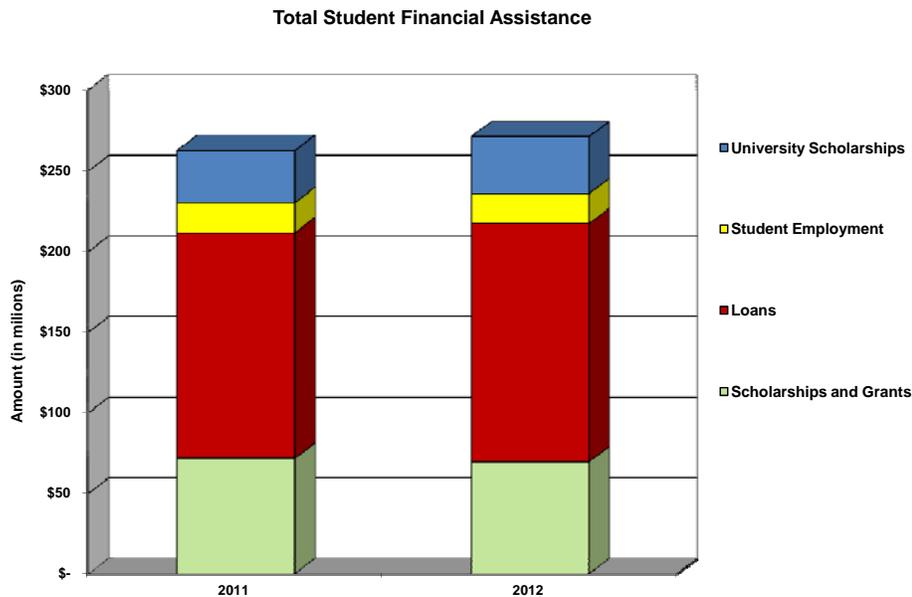
As of the most recent actuarial study, dated July 1, 2011, Ball State University's liability for retiree health care was estimated to be \$181.7 million. As of June 30, 2012, the trust fund established to assist in financing this liability had a market value of \$155.8 million. It is expected that the funding level will vary with general economic conditions over time. The University has a systematic plan in place to fund the benefit in accordance with the GASB Statement No. 45 rules, and is currently showing a prepaid expense amount, as opposed to a liability, of \$8.1 million, which indicates that the funding is slightly ahead of plan.

Ball State University is not unique in providing health care as a benefit for its retirees. One of Ball State University's financial strengths is that it has been engaged since the late 1980's in the systematic funding of this liability to its current status. As of June 30, 2012, the Voluntary Employee Beneficiary Association (VEBA) Trust was 85.8 percent actuarially funded. According to a study done by Hewitt EnnisKnupp, of companies within the S&P 500 that offered an OPEB plan, their funded ratio was only 27.0 percent.

In addition to retiree health care, Ball State also provides life insurance coverage to its retirees. The July 1, 2011, actuarial study estimated the liability for this benefit at \$22.3 million. As of June 30, 2012, the Life Insurance Continuance Fund (LICF) established to assist in financing this liability had a market value of \$20.1 million. The LICF was 90.1 percent funded on June 30, 2012.

## Scholarships and Financial Aid

Many students are provided assistance in covering the cost of their tuition and fees through college and University provided financial assistance. This assistance can be based on financial need or merit. In addition to the college and University provided financial assistance, several other types of aid such as federal and state financial assistance, federally guaranteed student loans, federal and state college work study, institutional aid providing room and board expenses, graduate assistants' and doctoral assistants' tuition remissions, other external scholarships and University student wages are available to improve affordability and access for Ball State students. The University's total student financial assistance provided in fiscal year 2011-12, as the graph indicates, was approximately \$271.2 million compared to \$261.5 million in the prior year.



Grants, scholarships and remitted fees, which is financial assistance excluding loans and student employment, increased by 0.9 percent in fiscal year 2011-12. This figure is lower than in previous years primarily due to a decrease in federal and state grants. Due to the discontinuance of year-round Pell funding, the amount of Pell grants decreased by approximately \$2.0 million from the prior year. And the State of Indiana discontinued an incarcerated student program that Ball State previously participated in, reducing state grants by approximately \$2.6 million from fiscal year 2010-11. Financial aid from institutional sources increased by 8.9 percent. Including loans and student employment, all forms of financial assistance increased by 3.7 percent from the prior year.

**The Statement of Net Assets and the Statement  
of Revenues, Expenses and Changes in Net Assets**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report in summary fashion the financial position of the University as a whole and on its activities, focusing on the University's net assets. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting. The only exceptions are gifts and grants and interest on student loans, which are generally recorded only when received. The following is a summary of the major components of net assets at June 30, 2012.

Net Assets		2012	2011
As of June 30, 2012 and 2011			
		<u>2012</u>	<u>2011</u>
<b>Assets:</b>			
Current Assets		\$ 230,894,267	\$ 183,751,591
<b>Noncurrent Assets:</b>			
Capital Assets, Net of Depreciation		589,327,136	561,023,366
Other		116,922,942	166,119,151
	<b>Total Assets</b>	<b>\$ <u>937,144,345</u></b>	<b>\$ <u>910,894,108</u></b>
<b>Liabilities:</b>			
Current Liabilities		\$ 48,941,122	\$ 47,416,562
Noncurrent Liabilities		190,785,937	202,408,881
	<b>Total Liabilities</b>	<b>\$ <u>239,727,059</u></b>	<b>\$ <u>249,825,443</u></b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt		\$ 409,137,155	\$ 369,558,366
Restricted		31,224,195	56,355,510
Unrestricted		257,055,936	235,154,789
	<b>Total Net Assets</b>	<b>\$ <u>697,417,286</u></b>	<b>\$ <u>661,068,665</u></b>
	<b>Total Liabilities and Net Assets</b>	<b>\$ <u>937,144,345</u></b>	<b>\$ <u>910,894,108</u></b>

**Current and Other Assets**

Current assets increased \$47.1 million from the previous year primarily due to an increase in Cash and Cash Equivalents of \$20.5 million, an increase in Short Term Investments of \$14.8 million and an increase of \$10.3 million in Accounts Receivable, Net and Unbilled Costs. Additionally, Long Term Investments decreased by \$47.5 million. Historically, the University favored guaranteed investments of a longer maturity since they offered more attractive interest rates. However, most of the long term investments are either callable or have such low rates, that it would be inadvisable to commit funds long term. Other long term investments have interest rates that increase every six to twelve months (step-ups). These instruments all have call options and many were called by the issuer before the interest rates stepped up. Interest rates over the past year have remained low. The University will continue to place investments with the most attractive rates in order to maximize return.

**Debt Administration**

The University has issued debt over the last several years to finance new construction and renovation projects on campus. As of June 30, 2012, the University had \$180.2 million of bond indebtedness outstanding, compared to \$191.5 million outstanding the prior year end. All of the University's bonds are fixed-rate, tax-exempt issuances that are secured by student fees or auxiliary revenues, depending on the original purpose of the bond. Although negative rating actions in the higher education sector have increased over the past three years, Ball State's rating was upgraded by S&P from A+ to AA- in fiscal year 2010-11 and that rating was confirmed in fiscal year 2011-12. In recent reaffirmations, both Moody's and Standard and Poor's noted the University's consistently strong operating performance, conservative budgeting practices, strong liquidity levels and moderate debt burden as positive indicators of future financial performance. The underlying ratings for Ball State University Bonds are Aa3 (Moody's) and AA- (Standard & Poor's). No new debt was issued in fiscal year 2011-12. More details regarding the University's bonds payable are presented in the Notes to Financial Statements.

## Capital Assets

On June 30, 2012, the University had \$409.1 million invested in capital assets, net of accumulated depreciation of \$311.5 million and related debt of \$180.2 million. Depreciation charges totaled \$22.2 million for the current fiscal year. All of these amounts reflect cost of construction rather than replacement cost.

Phase I of the new geothermal district heating and cooling system went live in the fall of 2011. Construction expenditures for this new system totaled \$13.2 million during fiscal year 2011-12. With the start-up of Phase I, the University is able to cut in half the amount of coal that is burned and save more than \$1.0 million annually. The entire system, when complete, will incorporate four components (well fields, heat pump chillers in two district energy stations, hot and cold district loops and building interfaces) to provide heating and cooling to 47 major campus buildings. This project will result in the largest full-scale district geothermal system in the country, and possibly in the world. It will also validate that district geothermal energy systems are economically viable, efficient and good for our environment. Phase I of the conversion was funded by student fee bonds issued in fiscal year 2007-08 and a federal grant awarded by the U.S. Department of Energy. Work has already begun on Phase II of the project. The University continues to aggressively pursue funding for the second phase of work from various sources. The entire project, when completed, will save the University over \$2.0 million per year, reduce dependence on fossil fuels, and cut the University's carbon footprint roughly in half.



**North Energy Building, Geothermal System**

The newly renovated North Quadrangle Building reopened in the Spring of 2012. North Quad was the first of three buildings that will be renovated as part of the Central Campus Academic Renovation and Utilities Improvement Project. Approximately \$3.6 million was expended in fiscal year 2011-12 as construction was closed out on North Quad.



**Renovation Work on the Teachers College Building**

The renovation of the Teachers College Building, the second component of the Central Campus Academic Renovation and Utilities Improvement, is currently underway. Construction is proceeding according to schedule, and completion is expected in 2013. Expenditures in fiscal year 2011-12 on the Teachers College renovation totaled \$7.1 million. Plans are in development for the renovation of the Applied Technology Building, the final building in this plan to revitalize the core of the campus. Approximately 11,000-14,000 students, or about two-thirds of the students on campus, use one or more of these three buildings each week.

Expenditures for construction in fiscal year 2011-12 included \$13.4 million for the major renovation and expansion of Studebaker East Residence Hall. This renovation is being funded from internally designated capital repair and replacement accounts. Construction was completed after the end of fiscal year 2011-12, and students were moved into the newly opened hall over Fall Break of 2012.

In addition to brick and mortar projects, the University also successfully launched the Finance module of its new Enterprise Resource Planning (ERP) system at the beginning of the 2011-12 fiscal year. Other modules have since been brought online, and work continues to fully implement all modules.

Current operating funds were utilized to purchase \$4.6 million in capital equipment, some of which replaced mostly fully-depreciated equipment dispositions originally costing \$2.2 million.

The University is committed to maintaining its capital assets in good condition. With many of the buildings on campus having been constructed 40 to 60 years ago, an emphasis on long-range planning is vital to ensure that proper funding is available for the care and upkeep of these facilities. The next section on net assets describes the components of this planning in more detail.

### **Net Assets**

In addition to net capital assets of \$409.1 million described above, the University had other net assets totaling \$288.3 million. This included \$31.2 million in restricted net assets which was comprised of: \$0.9 million in nonexpendable endowment restricted for student scholarships, \$6.1 million restricted for debt service, \$2.4 million restricted for student loans, \$18.1 million restricted for construction, and \$3.7 million restricted for external grants. Restricted net assets decreased by \$25.1 million, primarily due to the utilization of bond proceeds on the Central Campus Academic Renovation and geothermal conversion projects.

The remaining \$257.1 million of net assets is in unrestricted net assets. Unrestricted net assets do not have externally imposed restrictions, but are internally restricted for specific authorized purposes at the end of each fiscal year. The specific purposes for which these assets are internally restricted include the stewardship and renewal of capital assets, campus development and infrastructure, technological advancements, new building construction, self-insurance reserves, prepaid expense for retiree benefits as calculated in accordance with GASB Statement No. 45, student scholarships, student loans, funds received for instructional and athletic camps, workshops, and field trips, and other purposes. These internally restricted amounts are further discussed in the following sections. Unrestricted net assets increased by \$21.9 million, primarily due to year end transfers to bolster reserve accounts and increase contingency balances, and to designate funds for Strategic Plan initiatives.

### **Stewardship and Renewal of Capital Assets**

The campus facilities of Ball State University have a current replacement value of approximately \$2.0 billion based on an analysis of existing facilities and current construction cost indices. These facilities include over 110 buildings totaling approximately seven million gross square feet. Campus buildings involve: 35 acres of roof area, contain 110 elevators, 406 general-purpose classrooms wired for technology, and complex mechanical operating systems in each structure. The average building at Ball State University is 43 years old. The University also owns over 1,000 acres of land, approximately 724 of which



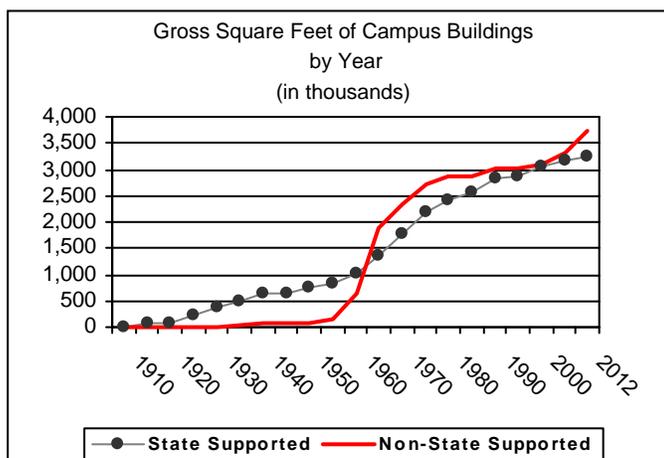
**Students Crossing McKinley Avenue**

are developed. Under the ground, the University has nearly 20 miles of steam, condensate and chilled water piping, nearly 26 miles of sewers, almost 14 miles of water piping, over 50 miles of electrical power distribution wiring and over 5,338 miles of communication cable to connect buildings. In addition, the thousands of boreholes drilled to date for the geothermal conversion project include almost 561 miles of loop piping. Above the ground, the University has 1,489 outside lighting poles, 34 miles of sidewalks and service roads, and 68 acres of surface parking lots. All of these assets have their own unique life cycles for maintenance and renewal, and the Facilities Planning & Maintenance staff of the University are responsible for ensuring that the assets are kept in excellent condition.

The financing of construction and ongoing renewal of University property is dependent on the type and use of the facility involved. These next two sections discuss how these costs are handled for state supported and non-state supported buildings. Ongoing renewal of campus facilities and infrastructure systems is a key component of Ball State University's strategic initiative of creating a vibrant and supportive campus atmosphere.

### State Supported Academic and Administrative Buildings

Campus buildings which are used primarily for academic or administrative purposes are generally funded through bond financing, state appropriations allocated on a biennial basis by the Indiana General Assembly, or private support. As shown in the accompanying graph, approximately 47.0 percent of the campus square footage is dedicated to academic and administrative uses. Historically, upkeep of these buildings has been funded on a formula basis by the State. As state funding for repair and rehabilitation of these spaces has been reduced over the last several biennia, deferred maintenance on these buildings is growing. Ball State is able to address some of the deferred maintenance needs through large scale renovation projects such as the Central Campus Academic Renovation and Utilities Improvement Project. Approximately \$6.0 million of internal University funds have been allocated for maintenance and equipping of targeted academic buildings where state R&R appropriations are not readily available.



### Non-State Supported Buildings

The remaining 53.0 percent of campus square footage consists of buildings which are not state supported, such as dining and residence halls, parking facilities, the student center, performance venues, athletic facilities, and conference venues. Non-state supported buildings play a critical role in achieving the University's mission of fostering educational, cultural, and social development in the student body. However, these buildings are built and maintained without state funds. These non-state supported buildings have a current replacement value of approximately \$0.9 billion. Between now and 2019, approximately \$168.9 million, in current dollars, is planned or underway for investment in renewal projects on these facilities. As of the end of fiscal year 2011-12, \$71.2 million has been allocated from auxiliary operations revenues and student fees for the stewardship and renewal of these facilities. The following tables list major non-state supported projects currently underway or in the planning process for the next few years.

#### Major Construction Projects in Progress Non-State Supported Buildings (\$1.0 million or greater)

	Budget (in millions)
Studebaker East Renovation	\$ 24.1
Noyer Dining Remodel	1.0
<b>Total Major Projects in Progress</b>	<b>\$ 25.1</b>

#### Major Construction Projects in Planning Non-State Supported Buildings (\$1.0 million or greater)

	Budget (in millions)
Johnson A Renovation	\$ 35.7
McKinley Commons	25.9
Johnson B Renovation	38.0
Elliott Hall Renovation	17.8
<b>Total Major Projects in Planning</b>	<b>\$ 117.4</b>

The age, size, number and complexities of the buildings on campus all coalesce into a need for a pragmatic plan for keeping the facilities in good condition. The University receives no state funding for the repair and rehabilitation of these facilities. An independent study done jointly by the Society for College and University Planning, the National Association of College and University Business Officers, and the Association of Physical Plant Administrators of Universities and Colleges and sponsored by the Lilly Endowment (*Financial Planning Guidelines for Facility Renewal and Adaption*) published in 1989, recommended that between two percent and four percent of plant replacement costs should be set aside on average each year in order to adequately fund repairs and renewal and to adapt facilities to changing code requirements and evolving contemporary needs. Based on this study as well as its own experience over many years, the University established a plan whereby approximately three percent of current replacement value for housing, dining, and other non-state supported buildings would be contributed annually in order to adequately fund this stewardship responsibility and avoid even higher costs brought about by accumulated deferred maintenance. For parking facilities, which are comprised of multi-level structures and paved and gravel lots, an annual target of two percent of current replacement value has been established. This methodology, which provides generational equity in funding across multiple student populations, is based on the premise that users should pay their fair share for the deterioration of the facilities they use. The goal is to maintain competitive, quality facilities at the lowest long-term cost to students. The Component Life-Cycle Illustrations table provides several examples of major repair and renewal components, as well as the typical life cycle for each. The balance in the repair and rehabilitation reserves for these non-state supported buildings will fluctuate over time depending on the number and size of projects underway in any year.

Component Life-Cycle Illustrations	
	Years
Roofs	15-20
Masonry Tuck Pointing	30-40
HVAC Systems	15-25
Foundations	80-100
Windows	40-50
Electrical Systems	15-30
Exterior Door Systems	15-20
Elevators	20-30
Lighting Fixtures	20-30

For the past several years, the University has been following a comprehensive plan to renovate or replace its residence hall and dining facilities as they reach the end of their useful lives. These improvements have been financed utilizing residence and dining revenues accumulated over past years, together with debt to be serviced utilizing future residence and dining revenues. The result has been an offering of attractive on-campus residence and dining facilities at room and board rates that are competitive with other housing and dining options available to students. In part due to the additions of new residence halls and the quality of the renovations to existing buildings, the University has seen a retention rate of returning students increase from 45.8 percent from fiscal year 2007-08 to 52.6 percent in fiscal year 2011-12. Over 80.0 percent of students agree that their resident hall environments support academic success, up from 68.0 percent five years ago.

Of the \$71.2 million set aside for the stewardship and renewal of non-state supported facilities, approximately \$35.5 million is specifically for repair and rehabilitation of residence and dining hall facilities. As mentioned earlier, the University has been immersed in a long-term plan to offer a strong residential

experience for students with the type of accommodations that students attending college today expect. In the last five years, two new residence halls, Park Hall in 2007 and Kinghorn Hall in 2010, have opened. In addition, DeHORITY Complex and Studebaker East have both been completely renovated during that time. These new and renovated accommodations have proven to be very popular with students. Overall, residence halls boasted an occupancy rate of nearly 98.0 percent in available student housing for Fall 2011. The renovations of Johnson Complex and Elliott Hall are also in the



**Park Hall**

planning process. Dining options have also been upgraded, with renovations wrapping up at Noyer Dining and new offerings throughout campus. The current replacement value for the residence hall and dining facilities is \$624.8 million. Over the next seven years, the University plans to use more than \$139.3 million from the Residence Hall and Dining Repair and

Replacement account, in current dollars, for scheduled major projects as well as ongoing capital repair and replacement projects. These uses include several major projects, like the upcoming renovation of the Johnson Halls Complex.

The University's parking facilities consist of three parking garages with 1,498 spaces and 68 acres of surface parking with an additional 7,654 spaces. These facilities, with a current replacement value of \$54.8 million, are also not supported by state funding. To ensure the preservation of these facilities, a long-term plan has been developed to provide for necessary periodic maintenance and major renovations. The Parking Facilities Renewal account currently contains \$2.6 million, funded primarily from parking revenues, including permits, daily fees, and citations. The renewal account is used to maintain the parking garages, repair asphalt lots, and convert gravel lots to paved lots. The University plans to spend more than \$5.6 million, in current dollars, over the next seven years for major and ongoing renewal of these facilities.

In addition to residence and dining halls and parking facilities, the University's non-state supported facilities also include the student center, conference centers, Emens Auditorium and recreational and athletic facilities. The current replacement value for these buildings is \$187.8 million. The renewal plan for each of these buildings is updated annually. Over \$33.1 million has been set aside to fund the renewal of these facilities. This fund has been provided by applicable auxiliary revenues, as well as the student fees allocated for the support of these facilities. Over the next seven years, approximately \$24.0 million in current dollars will be used from this account for regular ongoing capital renewal projects.

Ball State is continually updating its long-term master development plan for the campus. Orderly campus development has been a hallmark of the University since 1922, when the original academic core of the campus was laid out. Since that time, the campus has strategically and prudently expanded into areas adjacent to the original campus. The tracts of land required for this expansion have been acquired over many years without State funding. The University has found that developing and acquiring property in a methodical and organized manner substantially ahead of a specific need is the most desirable and cost effective approach. The University has allocated \$14.4 million for further development of the campus.

### Technological Advancement and Other Capital Projects

Ball State University realizes the critical role that technology plays in today's academic environment. The University has been nationally recognized for its commitment to offering the latest in computing equipment through Information Technology. This has been accomplished by a consistent funding methodology supported by an annual allocation for technology equipment renewal. The account for computer equipment renewal has a balance of \$11.5 million for cyclical updates of this equipment as well as for automating other campus systems, such as the library circulation system.



Architecture Lab

A software licensing and services agreement was signed with Ellucian after the end of fiscal year 2009-10 to commence the \$31.0 million implementation process for this new technology. The University also signed a managed services agreement for application hosting services with Indiana University to provide off-site hosting of the software. The Finance Module went live July 1, 2011. The Admissions module went live in October of 2011. Human Resources Module went live

in December of 2011. Registration went live in April of 2012. The other student system components will roll out over the next 12 months. The University recently signed a contract with Campus Management Corporation to implement a Customer Relationship Management solution and a Fundraising management solution. The implementation timeline will begin in December of 2012. The University's goal is full implementation of this administrative systems technology within the coming years to coincide with the goals and mission of the University's Strategic Plan. Approximately \$19.9 million remains allocated for costs related to these endeavors.

Over \$14.2 million has been set aside for capital projects that are underway or recently authorized. These projects include the eventual replacement of the campus telephone system, furnishings and equipment for academic buildings, and portions of the geothermal conversion project.

## Insurance and Other Exposures

Through self-insurance, Ball State University is able to better contain costs and avoid purchasing higher cost insurance coverage from outside carriers. A requirement of self-insurance, however, is the establishment of sufficient reserves to cover claims incurred by the University and its constituents. As of June 30, 2012, self-insurance reserves total \$12.6 million, of which \$9.9 million pertains to the self-insured health care plan for employees, retirees, and their families. Of the \$10.2 million reserve for health claims, \$5.3 million represents claims that were incurred but not yet paid as of year-end, while \$4.6 million is available for higher than anticipated claims in any given year. These amounts are established at the end of each year in consultation with the University's outside actuaries. The remaining \$2.4 million in insurance reserves includes \$0.8 million for the employee and retiree life insurance plan and \$1.6 million to cover higher than expected expenditures in unemployment and workers' compensation, as well as the high deductibles for property and casualty insurance. In addition to the insurance reserves, the requirements of GASB Statement No. 45 resulted in the recognition of \$8.1 million in prepaid retiree health care expense, an increase of \$1.3 million over the prior year.

The University's student fee bonds are secured by pledges and first liens on student fees. The debt service on a portion of these bonds is reimbursed by a Fee Replacement Appropriation made by the Indiana General Assembly. There is no guarantee that this appropriation will be renewed in any subsequent year, as the current General Assembly cannot legally bind future General Assemblies. In order to facilitate the timely payment of the debt service on the bonds and the receipt of fee replacement appropriations, the University has established a reserve account. The current balance in this account is \$15.9 million.

The University has allocated \$8.0 million, or approximately 2.6 percent of expenditures, to a contingency reserve. This reserve is intended to help offset the costs related to a significant, unforeseen event, such as a major pandemic, a major weather-related event, other adverse acts of nature, or other claims.

## Other Allocations

The University works closely with students who have difficulty with the financial obligations of attending the University. In order to assist students whose financial aid packages have not been finalized, the University has designated \$0.4 million for emergency loans. The University has also set aside \$2.0 million for scholarship funding to help offset reduced aid opportunities from external sources.



**Biology Greenhouse**

The University has also designated funds to be used for various academic initiatives. As part of a matching grant agreement, approximately \$2.7 million will be used primarily for on-going programs at the Marilyn K. Glick Center for Glass. In addition, \$4.3 million has been designated to assist with academic initiatives such as a new core curriculum, new emerging media technology, a Ph.D. in Environmental Science, and a systematic need to provide start-up packages for a potentially large number of new tenure-track faculty over the coming years. An additional \$4.1 million has been allocated to support the initiatives of the new strategic plan. These funds will be allocated to such initiatives as their financial plans and timing are finalized.

At the end of the fiscal year, several operating accounts maintain residual balances that will be

carried forward to the next fiscal year to be used for their intended purposes. At June 30, 2012, these balances totaled \$61.2 million. The balances also include fees collected but not yet expensed for specific purposes, including workshops, academic and athletic camps, and conferences.

GASB Statement No. 31 requires the University to adjust the carrying value of its investments to their market value as of the end of each fiscal year, even though the University seldom disposes of any investment instrument prior to its maturity. As of June 30, 2012, the University recorded a positive market adjustment, \$0.6 million of which was applied to the balances in unrestricted net assets.

### Change in Net Assets

The following is a summary of the revenues and expenses resulting in the changes in net assets for the year ended June 30, 2012. Note that, for purposes of this statement, state appropriations are considered non-operating revenues.

Change in Net Assets			
Year Ended June 30, 2012 and 2011			
	2012	2011	
Operating Revenues	\$ 254,504,231	\$ 240,662,424	
Operating Expenses	<u>411,356,282</u>	<u>411,207,438</u>	
Net Operating Income/(Loss)	\$ (156,852,051)	\$ (170,545,014)	
Net Non-Operating Revenues	187,742,894	199,582,543	
Other Revenue – Capital Appropriations and Gifts	<u>5,457,778</u>	<u>3,265,579</u>	
Increase in Net Assets	\$ 36,348,621	\$ 32,303,108	
Net Assets - Beginning of Year	661,068,665	628,765,557	
Net Assets - End of Year	<u><u>\$ 697,417,286</u></u>	<u><u>\$ 661,068,665</u></u>	

### Operating Revenues

Operating revenues increase net assets and include all transactions that result in sales and/or receipts from goods and services such as tuition and fees, housing, dining and athletics. In addition, federal, state and private grants are considered operating if they are not for financial aid or capital purposes.

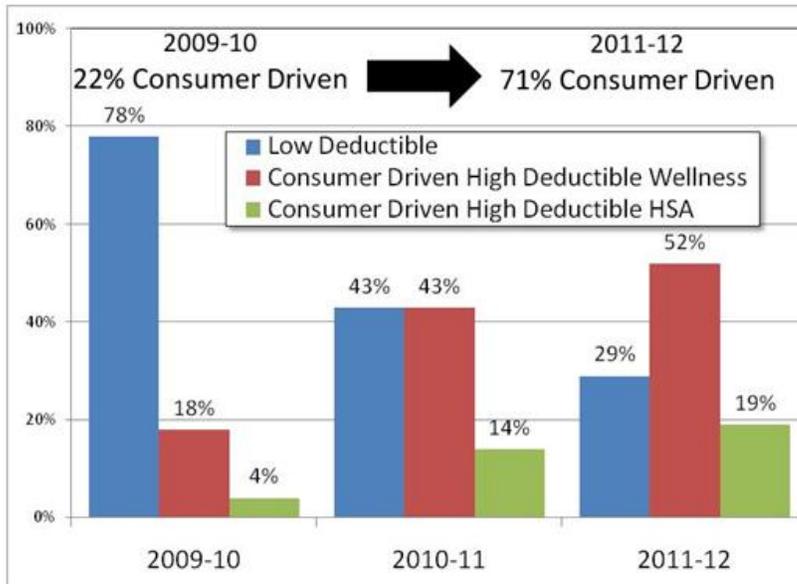
Student tuition and fees net revenue increased \$13.9 million as a result of rate increases and increased enrollment. Auxiliary enterprises revenue, including housing and dining net revenues, increased \$3.7 million, due primarily to rate increases and increased occupancy in the apartments and residence halls. Scholarship allowances, generated by federal and state financial aid funds as well as internally generated discounts, have reduced tuition and fees revenue by \$64.0 million and room and board revenue by \$6.0 million.

Grants and contracts revenue totaled \$16.6 million, \$5.3 million less than in fiscal year 2010-11. Sales and services of educational departments were unchanged at \$15.8 million.

### Operating Expenses

Operating expenses reduce net assets and consist of all the costs necessary to perform and conduct the programs and primary purposes of the University. Included in this total are student aid payments of \$7.7 million, which are in addition to \$64.0 million and \$6.0 million in scholarships and fee remissions netted against tuition and fees revenue and room and board revenues, respectively. Overall, operating expenses remained steady showing only a \$0.2 million increase over last year. However, there were a few notable changes including a \$4.6 million increase to personnel services, a \$1.8 million increase in repairs and maintenance as well as an increase to depreciation expense in the amount of \$2.0 million. There was also a reduction of \$6.7 million in other supplies and expense which includes: basic office supplies, insurance, certain contracts, postage, certain rental costs, software and other expenses.

The 2011-2012 fiscal year, proved to be a volatile year for Health care costs as they continue to be a major factor in the costs of operations at the University. Claims and administrative costs increased by five percent, which reflects a higher percentage of persons with chronic illnesses and a higher number of catastrophic claims. The University is committed to providing health enhancement wellness programs to employees to not only improve their level of health but also to improve their quality of life by expanding its health enhancement program activities, including offering free health risk assessments and screenings to employees and their spouses, incentives for participation in wellness activities, and continuing to work with employees on



managing their chronic health conditions. The effect of a new Preferred Provider Organization (PPO) network that was implemented over a year ago has helped to keep the claim cost lower than anticipated in light of the number and types of claims presented this year. The University has also made numerous changes to the various health plan options, including paying a larger portion of the premiums for the high deductible plans to encourage employee migration to the consumer driven plans. Due to a combination of increases in investment returns in the VEBA Trust, and decreased actuarial liabilities and structural

savings resulting from health care plan changes, a contribution to the VEBA Trust was not necessary in fiscal year 2011-12. The University will continue to make the necessary contributions that are calculated to achieve full funding in 26 years or less.

### **Non-Operating Revenues and Expenses**

Non-operating revenues increase net assets, and non-operating expenses reduce net assets. Non-operating revenues and expenses are generated from transactions that are primarily non-exchange in nature, consisting mainly of state appropriations, federal and state scholarships and grants, private gifts, interest expense and investment income (interest and dividend income and realized and unrealized gains and losses).

For fiscal year 2011-12, state operating appropriations distributed to the University decreased by \$2.1 million from the previous year. This includes an increase in the Entrepreneurial University line item to the University and excludes \$1.0 million received in ARRA funds in fiscal year 2010-11.

Federal and State Scholarships and Grants decreased by \$4.0 million, and Other Non-Operating Income decreased by \$1.6 million. Other Non-Operating Income consists primarily of head count funds (formerly ADM receipts) of \$1.7 million for the Indiana Academy for Science, Mathematics and Humanities and \$3.5 million for Burriss Laboratory School, plus \$0.2 million in Medicare Retiree Drug Subsidy. Investment Income rebounded by \$1.6 million, due in part to gains realized during the fiscal year and stable interest rates.

### **Other Revenues**

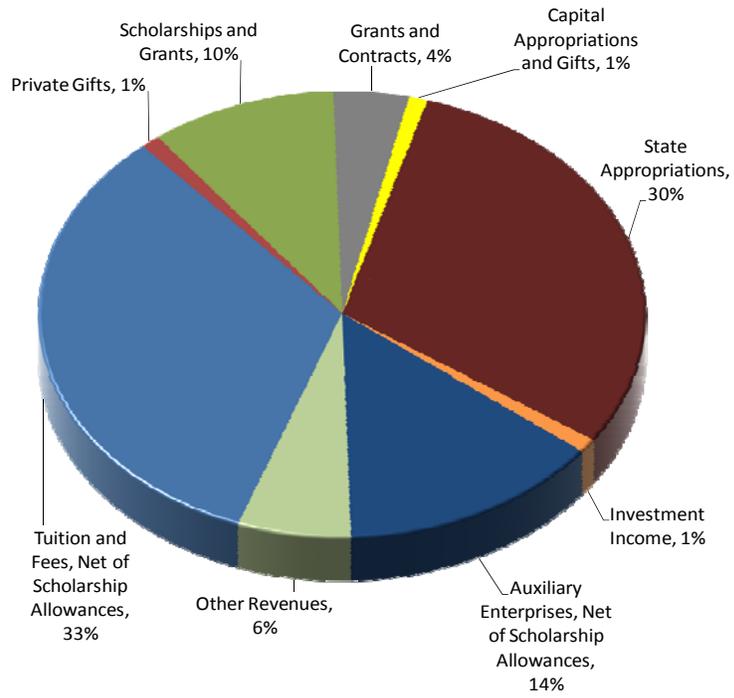
<b><i>Renewal and Replacement Appropriations</i></b> <i>(millions of dollars)</i>					
<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>\$2.6</b>	<b>\$3.4</b>	<b>\$0.0</b>	<b>\$1.6</b>	<b>\$2.5</b>	<b>\$4.3</b>

Other revenues increase net assets and consist of capital appropriations, gifts and grants, as well as items that are typically non-recurring, extraordinary, or unusual to the University.

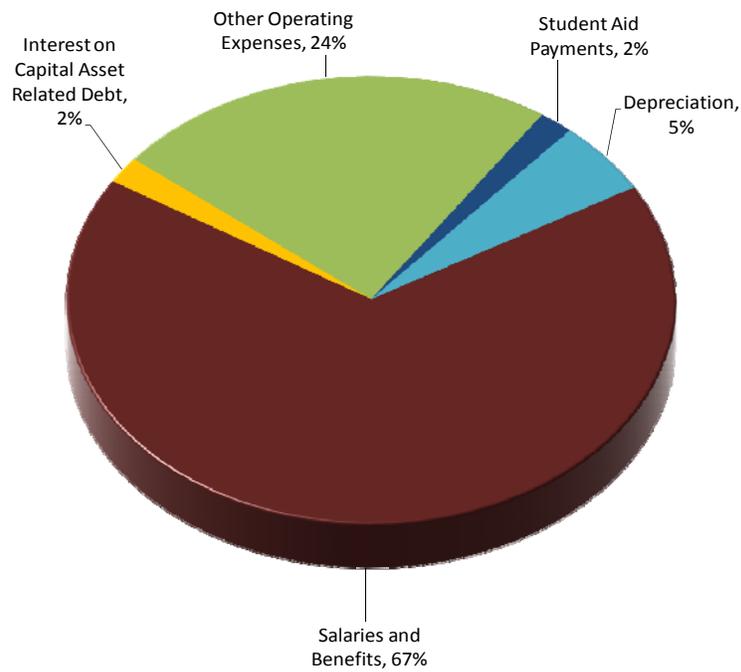
State capital appropriations for renewal and replacement received after 2008 have been from federal stimulus funds. All of the federal stimulus

funds have been expended as of the end of Fiscal 2012. Capital gifts from the Ball State University Foundation totaled \$1.2 million for various capital projects, including the expansion of the David Owsley Museum of Art and recent improvements to the soccer and track and field facilities at the Briner Sports Complex.

### Total Revenues by Source



### Total Expenses by Object



**Statement of Cash Flows**

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the University during the period. Unlike the Statement of Revenues, Expenses and Changes in Net Assets, which reports revenues when they are earned and expenses when they are incurred, regardless of when cash is received or disbursed, the Statement of Cash Flows reports actual cash received and disbursed. The focus of the Statement of Cash Flows is on the increase or decrease in cash and cash equivalents. The Statement of Cash Flows helps the user assess the University's ability to generate future net cash flows, meet obligations as they come due, and assess the University's needs for external financing.

Cash Flows  
Year Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash and Equivalents Provided By/(Used In):		
Operating Activities	\$ (139,933,155)	\$ (162,372,224)
Non-Capital Financing Activities	189,816,522	205,741,583
Capital and Related Financing Activities	(65,675,833)	(47,929,117)
Investing Activities	<u>36,257,891</u>	<u>19,493,114</u>
Net Increase in Cash and Equivalents	\$ 20,465,425	\$ 14,933,356
Cash and Equivalents – Beginning of Year	<u>120,451,105</u>	<u>105,517,749</u>
Cash and Equivalents – End of Year	<u>\$ 140,916,530</u>	<u>\$ 120,451,105</u>

The major components of cash flows provided from operating activities are tuition and fees and auxiliary enterprise activities (housing and dining fees). More cash was provided by tuition and fees and auxiliary enterprise activities than in the prior year due to rate increases and increased enrollment. The major components of cash flows used in operating activities are payments for employees (including benefits) and payments to suppliers and service providers. Compared to the prior year, more cash was expended for personnel services and repairs and maintenance.

Cash flows provided from non-capital financing activities primarily reflect state appropriations received of \$141.4 million and scholarships and grants from federal and state sources of \$45.4 million.

Cash flows from capital financing activities reflect a decrease in cash for the year, due primarily to cash expenditures of \$51.3 million for capital assets in fiscal year 2011-12. Debt service was \$19.3 million in fiscal year 2011-12.

Cash flows from investing activities, most of which consists of reinvesting the proceeds from investments as they mature, resulted in a net increase in cash of \$36.3 million.

**Economic Factors That Will Affect the Future**

For 2012, Moody's maintains a mixed outlook for U.S. not-for-profit private and public colleges and universities, mirroring the 2011 outlook. There is a stable outlook for the diversified market-leading colleges and universities, which have the strongest market positions and balance sheets and operate multiple revenue-generating business lines. Moody's maintains a negative outlook for the remainder of the sector. This majority segment attracts students more regionally, retains less pricing power, and maintains thinner balance sheets.

Despite stiffer headwinds, the large majority of rated colleges and universities have thus far fared well and demonstrated organizational nimbleness during the prolonged stressful economic period following the 2008-09 financial crisis. Although negative rating actions in the higher education sector have increased over the past three years, Ball State's rating was upgraded in fiscal year 2010-11 and that rating was confirmed in fiscal year 2011-12. Colleges and universities led by experienced management teams with diverse backgrounds and overseen by strong boards will be best placed to navigate through ongoing future challenges. Across the rating spectrum, those organizations that are willing and able to adapt their business models to an era of "new normal" realities will be best poised for long-term success.

According to Moody's, three key critical credit factors that are driving their outlook for U.S. higher education in 2012 are:

1. Evolving demand trends for undergraduate and graduate programs highlight flight to quality and affordability.
2. Rattled consumer confidence puts intense spotlight on college affordability.
3. Pressure on non-tuition revenue underscores the importance of revenue diversification and operating efficiency.

Ball State has been able to distinguish itself through Immersive Learning—the hallmark of a Ball State education. Immersive Learning pulls together interdisciplinary student teams guided by expert faculty to create unique, high-impact learning experiences that result in real-world solutions. Between 2007 and 2012, approximately 16,400 students have completed upwards of 1,000 Immersive Learning experiences throughout Indiana and as far away as Hong Kong, Venice, and Malawi. Featured projects include transforming hospital gowns into cozy, dignified apparel for patients with cancer; converting elaborate statistics into dynamic informational graphics about water scarcity; and bringing history to life through educational computer programs for elementary schools. A recent survey conducted by Hart Research Associates showed that the skills and experiences earned by students in Immersive Learning projects are highly valued by employers.



**A. Umit Taftali Center for Capital Markets and Investing**

a lower price, reducing the number of credit hours required for an undergraduate degree from 126 to 120 for the vast majority of academic programs, reducing the cost of summer school, and providing a Completion Scholarship to Hoosier students who complete their undergraduate degree in four years or less.

The efficiency and effectiveness of public institutions of higher education in Indiana and the affordability of a college education have become major issues for students and policymakers. Every dollar saved through efficiencies can be used to reduce the overall expense associated with delivering a quality education. These efficiencies are critical as they allow institutions to mitigate the national trend of a higher share of the overall cost of public higher education being borne by the student.

Efficiencies are therefore critical in Ball State's goal to keep tuition increases as low as possible while not sacrificing the quality of the educational experience. Ball State has long recognized the importance of balancing quality and effectiveness. The University has been steadfast in its commitment to be responsible stewards of its assets and resources. As a result, the University has intensified its efforts to improve efficiencies through process redesign, restructured operations, utilization of technology, and strategic reallocation.

Specifically, based on independent studies, Ball State is demonstrably efficient compared to our higher education peers in three key categories, which constitute a major component of the University's general fund budget:

1. Administrative staffing levels;
2. Health care costs;
3. Energy/Utility expenses.

These efficiencies are discussed in more detail below.

As a state-supported institution of higher education, the economic health of the University is closely tied to that of the State of Indiana. The State closed its books on fiscal year 2011-12 showing general fund tax revenue increases of 6.4 percent over fiscal year 2010-11 and a surplus in excess of \$2.1 billion, or 15.7 percent of expenditures. Indiana retains a AAA bond rating from Standard & Poors. State revenues are projected to continue to increase in fiscal year 2012-13.

Ball State has also increased its on-line enrollment by 57.0 percent since fiscal year 2008-09. This growing sector of the University allows both more flexibility for working and non-traditional students to pursue and complete degrees and expands the market for the University to serve those types of students. Moreover, Ball State has four top twenty rankings in the *U.S. News and World Reports'* 2012 Top Online Education Program rankings. The 2012-17 Strategic Plan calls for an increase in on-line enrollment of an additional 35.0 percent.

In terms of affordability, Ball State rolled out a comprehensive four-point plan in the fall of 2011 to make college more affordable. The plan included a new tuition structure, which allows students to take more credit hours for

## Tuition and Enrollment

Ball State University has the second lowest tuition rate of any college in the Mid-American Conference, and lower than the University's two closest competitors for Indiana students. Total enrollment has increased by 14.0 percent since 2001-02. This



**Spring Commencement – Arts Terrace**

increase in enrollment is attributable to aggressive recruitment of higher ability students. Increased quality of applicants has enabled Ball State to increase its admissions standards and selectivity.

Similarly, freshman retention has risen from 74.7 percent in Fall 2006 to 79.4 percent in Fall 2011. By extracting components of the Strategic Plan related to providing immersion experiences for all students, securing national recognition for additional program areas, increasing the numbers of international students through targeted efforts in specific countries, fostering growth in graduate study programs, and

taking steps that add to the vibrancy of the campus experience for students, the ability to attract greater numbers of high ability students will be enhanced.

## Financial Aid

Financial aid from all sources disbursed by the University has increased by 185.7 percent since fiscal year 2000-01 and has grown at a higher rate than tuition charges have grown.

## Gifts and Other Revenue

Ball State University raised a record \$210.8 million at the conclusion of its Ball State Bold capital campaign, the most ambitious and successful effort in the University's history. Commitments to the campaign totaled \$210,814,367. All told, 65,398 donors supported the campaign; nearly half — 29,024 — were first-time contributors to the University. New and matured planned gifts totaled more than \$64.0 million, exceeding the \$50.0 million goal and increasing membership in Beneficence Society.

Fiscal year 2011-12 brought \$14.1 million in external dollars to Ball State University in the form of sponsored programs. The University submitted 505 proposals during the fiscal year, and 285 funded awards were recorded. These figures include grant awards, contracts awarded to University Centers and Institutes, and funding to the Ball State University Foundation that resulted in sponsored programs.

## Efficiency Measures

Recognizing the economic conditions of the state of Indiana and the nation and the increasing focus on college affordability, it becomes increasingly important for public institutions of higher education to operate as efficiently as possible. Ball State is unfailingly striving to operate as efficiently as possible without negatively impacting our educational mission. The University prides itself on being good stewards of taxpayer and student dollars. Based on externally generated reports addressing the efficiency of postsecondary institutions, Ball State ranks high in efficiency in key areas of staffing levels, growth in administrative staffing, health care costs and energy costs per square foot of facilities.

Higher education is a people driven enterprise. A majority of University expenditures are on salary and wages to pay the faculty and staff that operate the University. Total compensation (salary and benefits) is approximately 70.0 percent of the University's budget, far and away the largest single expenditure. Compensation for administrative (or professional) staffing alone represents approximately 15.0 percent of the University's total budget.

It is in the University's best interests to keep administrative staffing to an efficient level. This frees up resources to either be spent in the classroom to further the academic quality of the institution or to reduce overall expenditures to keep college

affordable for students and taxpayers. When done appropriately, efficient administrative staffing will not have a negative impact on the academic mission of the institution. The Center for College Affordability and Productivity reported that Ball State has a significantly lower level of staffing per student than the average public University. In addition, a study by the Goldwater Institute showed that Ball State had one of the lowest growth rates in administrative staffing in the country.

Expenditures on utilities to heat, cool and power facilities and equipment is the fourth largest line item in the Ball State general fund budget, behind only salaries, benefits and student financial aid, and represented 4.0 percent of the fiscal year 2011-12 general fund budget. Buildings must have heat and light and computers and equipment must have power to operate, but more efficient delivery systems, components, policies (e.g., temperature controls) and consumer behavior (e.g., turning out lights) have no real impact on the academic mission of the institution, except to the extent that a more efficient and less costly delivery of those utilities saves money for students and taxpayers.



**Bore Drilling for Geothermal Phase II**

the traditional PPO plan, negotiating new contracts with network providers that lower the cost of health care delivery, promoting consumer driven health care plans partially through a University contribution to a health savings account, reduced employer contributions to more expensive health care plans, and substantial wellness initiatives to encourage healthy behavior. The result has been significant structural savings.

Clearly, the University reaped substantial savings from the implementation of Phase I of the geothermal system in the Fall of 2011. Those savings will only increase as the second phase of the project is rolled out. Energy savings must also come from multiple, continuous and creative efforts across the campus, as evidenced by the fact that Ball State has kept expenditures on energy well below the national average even before the geothermal project was started. The *Advisory Board Company*, a global research, consulting, and technology firm, studied the energy costs of postsecondary institutions and concluded that Ball State's energy cost per square foot of facilities was 32.0 percent below the national average. Once the geothermal project is finished, the University should be at or very near the best in class for energy efficiency.

Runaway health care spending is one of the most pressing challenges facing the United States health care system. Health care costs have captured the attention of state and national policy makers. Ball State has not been sheltered from the rising cost of health care for its employees. Health care spending represents a significant share of Ball State's general fund expenditures. In fiscal year 2011-12, Ball State budgeted approximately 11.0 percent of its general fund for health care. This expenditure is the second highest expenditure after salaries as a percentage of the general fund budget.

Since 2010, as a result of rising health care costs, the University has made significant changes to the health care plans offered to employees. The changes in the Ball State plan included eliminating

## **Conclusion**

In summary, as the financial statements indicate, the University has been an effective steward of the human, physical and financial resources entrusted to it, based on a planned approach to addressing long-term needs and liabilities while facing shorter-term challenges not unlike other public institutions nationwide. In addition, Ball State's efficient operations and growing reputation make the University well positioned for the future. With the 2007-12 Strategic Plan now in the books, the University will continue to build on its successes in the 2012-17 Strategic Plan. When all of this is taken into consideration, Ball State University remains in a strong position to be a major asset of significant benefit to the citizens of the State of Indiana.

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## Ball State University

### Statement of Net Assets

As of June 30, 2012 and 2011

	2012	2011
<b>Assets:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 140,916,530	\$ 120,451,105
Short Term Investments	22,091,435	7,257,714
Accrued Interest Receivable – Investments	330,583	1,309,024
Accounts Receivable, Net, and Unbilled Costs (Note C)	36,461,573	26,182,191
Inventories	1,455,907	1,556,548
Deposit with Bond Trustee	15,599,381	15,384,720
Notes Receivable, Net	2,122,796	1,301,439
Prepaid Retiree Benefits (Note H)	8,073,883	6,822,059
Prepaid Expenses	3,842,179	3,486,791
Total Current Assets	\$ 230,894,267	\$ 183,751,591
Noncurrent Assets:		
Endowment Investments	\$ 947,127	\$ 1,192,407
Accounts and Notes Receivable, Net	9,505,101	10,923,792
Other Long Term Investments	106,470,714	154,002,952
Capital Assets, Net (Note D)	589,327,136	561,023,366
Total Noncurrent Assets	\$ 706,250,078	\$ 727,142,517
Total Assets	\$ 937,144,345	\$ 910,894,108
<b>Liabilities:</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 27,360,095	\$ 25,858,751
Deposits	9,858,836	8,716,836
Deferred Revenue	307,191	1,565,975
Long Term Liabilities – Current Portion	11,415,000	11,275,000
Total Current Liabilities	\$ 48,941,122	\$ 47,416,562
Noncurrent Liabilities:		
Liability for Compensated Absences (Note B)	\$ 7,699,328	\$ 7,734,468
Perkins Loan Program – Federal Capital Contribution	9,169,642	9,084,056
Long Term Liabilities, Net (Note E)	173,916,967	185,590,357
Total Noncurrent Liabilities	\$ 190,785,937	\$ 202,408,881
Total Liabilities	\$ 239,727,059	\$ 249,825,443
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 409,137,155	\$ 369,558,366
Restricted for:		
Nonexpendable Scholarships	914,729	910,428
Expendable:		
Debt Service	6,137,084	5,746,523
Loans	2,437,440	2,390,667
Construction	18,083,069	39,865,079
External Grants	3,651,873	7,442,813
Unrestricted	257,055,936	235,154,789
Total Net Assets	\$ 697,417,286	\$ 661,068,665
Total Liabilities and Net Assets	\$ 937,144,345	\$ 910,894,108

## Ball State University Foundation

### Consolidated Statements of Financial Position

As of June 30, 2012 and 2011

	2012	2011
<b>Assets:</b>		
Cash	\$ 373,079	\$ 904,772
Interest and Dividends Receivable	1,000	35,447
Contributions Receivable, Net of Allowances of \$454,075 and \$577,493	12,663,328	16,062,546
Property Held for Sale	1,010,623	2,191,508
Investments	169,756,962	166,695,792
Investments Held in Split-Interest Agreements	2,213,581	2,250,491
Beneficial Interest in Remainder Trusts	1,108,246	1,721,443
Bond Issue Costs and Other Assets	2,583,313	1,258,466
Cash Surrender Value of Life Insurance	1,678,869	1,617,700
Property and Equipment	3,065,284	4,182,996
Beneficial Interest in Perpetual Trusts	2,393,189	2,291,707
Total Assets	\$ 196,847,474	\$ 199,212,868
<b>Liabilities:</b>		
Accounts Payable	\$ 4,990,441	\$ 3,092,232
Grants Payable	741,508	1,341,508
Accrued Expenses	179,741	193,459
Line of Credit	4,454,000	2,500,000
Term Bonds Payable	6,300,000	7,300,000
Annuity Obligations	2,514,420	1,752,448
Trust Obligations	647,926	628,615
Bonds Payable	10,000,000	10,000,000
Total Liabilities	\$ 29,828,036	\$ 26,808,262
<b>Net Assets:</b>		
Unrestricted	\$ (5,722,302)	\$ 531,465
Temporarily Restricted	102,967,737	103,424,050
Permanently Restricted	69,774,003	68,449,091
Total Net Assets	\$ 167,019,438	\$ 172,404,606
Total Liabilities and Net Assets	\$ 196,847,474	\$ 199,212,868

See Note A in Notes to Financial Statements

## Ball State University

### Statement of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 213,108,850	\$ 199,466,092
Scholarship Allowances	(64,034,785)	(64,329,131)
Net Student Tuition and Fees	\$ 149,074,065	\$ 135,136,961
Federal Grants and Contracts (Note C)	6,460,847	5,269,499
State & Local Grants and Contracts	1,476,908	2,654,646
Non-Governmental Grants and Contracts	8,650,838	13,980,187
Sales and Services of Educational Departments	15,816,246	15,776,944
Auxiliary Enterprises:		
Residential Life (Net of Scholarships and Allowances: 2012 - \$5,984,849, 2011 - \$5,902,182)	58,799,224	55,595,487
Other	8,953,287	8,432,382
Other Operating Revenues	5,272,816	3,816,318
Total Operating Revenues	\$ 254,504,231	\$ 240,662,424
<b>Operating Expenses:</b>		
Personnel Services	\$ 213,059,725	\$ 208,451,895
Benefits (Note H)	68,683,862	69,695,014
Utilities	11,888,201	12,007,385
Repairs and Maintenance	16,063,767	14,290,282
Other Supplies and Expenses	71,771,689	78,492,299
Student Aid	7,717,510	8,067,283
Depreciation	22,171,528	20,203,280
Total Operating Expenses	\$ 411,356,282	\$ 411,207,438
Operating Income/(Loss)	\$ (156,852,051)	\$ (170,545,014)
<b>Non-Operating Revenues/(Expenses):</b>		
Federal and State Scholarship and Grants (Note C)	\$ 45,359,910	\$ 49,305,397
State Appropriations (Note C)	139,525,712	145,030,050
Investment Income	2,335,654	740,346
Interest on Capital Asset Related Debt	(8,110,434)	(7,565,512)
Private Gifts	3,630,992	5,412,971
Other Non-Operating Income (Note C)	5,001,060	6,659,291
Net Non-Operating Revenues/(Expenses)	\$ 187,742,894	\$ 199,582,543
Income Before Other Revenues, Expenses, Gains or Losses	\$ 30,890,843	\$ 29,037,529
Capital Appropriations (Note C)	4,268,791	2,526,233
Capital Gifts	1,188,987	739,346
Increase in Net Assets	\$ 36,348,621	\$ 32,303,108
Net Assets – Beginning of Year	661,068,665	628,765,557
Net Assets – End of Year	\$ 697,417,286	\$ 661,068,665

**Ball State University Foundation**

Statement of Activities

Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support:</b>								
Contributions	\$ 934,557	\$ 6,661,744	\$ 1,703,083	\$ 9,299,384	\$ 2,203,242	\$ 9,872,060	\$ 1,483,364	\$ 13,558,666
Promotional Activities and Other Revenue	4,353	-	-	4,353	13,334	-	-	13,334
Investment Income (Loss)	(931,295)	2,274,422	193,161	1,536,288	16,115,298	10,411,881	180,719	26,707,898
Change in Value of Split-Interest Agreements	(72,695)	436,234	(166,743)	196,796	275,180	334,502	389,239	998,921
Operating Support Fees	1,133,948	(1,117,583)	(16,365)	-	953,514	(927,976)	(25,538)	-
	<u>\$ 1,068,868</u>	<u>\$ 8,254,817</u>	<u>\$ 1,713,136</u>	<u>\$ 11,036,821</u>	<u>\$ 19,560,568</u>	<u>\$ 19,690,467</u>	<u>\$ 2,027,784</u>	<u>\$ 41,278,819</u>
Net Assets Released from Restrictions	9,099,354	(8,711,130)	(388,224)	-	10,956,934	(10,095,998)	(860,936)	-
Total Revenues, Gains and Other Support	<u>\$ 10,168,222</u>	<u>\$ (456,313)</u>	<u>\$ 1,324,912</u>	<u>\$ 11,036,821</u>	<u>\$ 30,517,502</u>	<u>\$ 9,594,469</u>	<u>\$ 1,166,848</u>	<u>\$ 41,278,819</u>
<b>Expenses:</b>								
University Capital Projects	\$ 11,107,665	\$ -	\$ -	\$ 11,107,665	\$ 12,740,852	\$ -	\$ -	\$ 12,740,852
Management and General	1,715,899	-	-	1,715,899	1,629,140	-	-	1,629,140
Fund Raising	3,598,425	-	-	3,598,425	3,531,949	-	-	3,531,949
Total Expenses	<u>\$ 16,421,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,421,989</u>	<u>\$ 17,901,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,901,941</u>
<b>Change in Net Assets</b>	\$ (6,253,767)	\$ (456,313)	\$ 1,324,912	\$ (5,385,168)	\$ 12,615,561	\$ 9,594,469	\$ 1,166,848	\$ 23,376,878
<b>Net Assets, Beginning of Year</b>	<u>531,465</u>	<u>103,424,050</u>	<u>68,449,091</u>	<u>172,404,606</u>	<u>(12,084,096)</u>	<u>93,829,581</u>	<u>67,282,243</u>	<u>149,027,728</u>
Net Assets, End of Year	<u>\$ (5,722,302)</u>	<u>\$ 102,967,737</u>	<u>\$ 69,774,003</u>	<u>\$ 167,019,438</u>	<u>\$ 531,465</u>	<u>\$ 103,424,050</u>	<u>\$ 68,449,091</u>	<u>\$ 172,404,606</u>

## Ball State University

## Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Source / (Uses) of Cash:</b>		
<b>Operating Activities:</b>		
Tuition and Fees	\$ 147,997,850	\$ 134,589,636
Grants and Contracts	13,960,579	19,723,847
Payments to Suppliers	(65,245,844)	(87,279,669)
Payment for Maintenance and Repair	(16,063,767)	(14,290,282)
Payments for Utilities	(11,888,201)	(12,007,385)
Payments for Personnel Services	(217,736,309)	(208,148,135)
Payments for Benefits	(69,773,666)	(68,869,977)
Payments for Scholarships and Fellowships	(7,518,508)	(8,112,971)
Auxiliary Enterprise Charges:		
Room and Board	58,507,168	55,469,326
Other	8,912,899	9,184,337
Sales and Services of Educational Activities	14,172,170	15,704,352
Other Receipts/Disbursements/Advances	4,742,474	1,664,697
Net Cash Provided/(Used) by Operating Activities	<u>\$ (139,933,155)</u>	<u>\$ (162,372,224)</u>
<b>Non-Capital Financing Activities:</b>		
Federal and State Scholarships and Grants	\$ 45,359,910	\$ 54,241,906
State Appropriations	141,411,671	139,093,541
William D. Ford Direct Lending Receipts	105,736,859	99,400,940
William D. Ford Direct Lending Disbursements	(111,320,254)	(99,400,940)
PLUS Loans Receipts	20,753,865	33,096,994
PLUS Loans Disbursements	(21,842,648)	(33,096,994)
Private Gifts	5,465,854	6,353,721
Foundation Receipts	1,812,411	1,737,953
Foundation Disbursements	(1,812,411)	(1,737,953)
Other Non-Operating Revenue	5,001,060	6,659,291
Other Receipts	(749,795)	(606,876)
Net Cash Provided/(Used) by Non-Capital Financing Activities	<u>\$ 189,816,522</u>	<u>\$ 205,741,583</u>
<b>Capital Financing Activities:</b>		
Proceeds from Capital Debt	\$ -	\$ 32,225,000
Capital Appropriations	4,268,791	2,526,232
Capital Gifts	1,188,987	739,346
Unamortized Bond Premium	(258,391)	820,571
Purchases of Capital Assets	(51,349,786)	(65,399,755)
Principal Paid on Capital Debt	(11,275,000)	(9,530,000)
Interest Paid on Capital Debt	(8,035,774)	(7,326,107)
Deposits with Trustee	(214,660)	(1,984,404)
Net Cash Provided/(Used) by Capital Financing Activities	<u>\$ (65,675,833)</u>	<u>\$ (47,929,117)</u>
<b>Investing Activity:</b>		
Proceeds from Sales and Maturities of Investments	\$ 184,527,929	\$ 193,248,886
Interest on Investments	3,611,766	581,941
Purchase of Investments	(151,881,804)	(174,337,713)
Net Cash Provided/(Used) by Investing Activities	<u>\$ 36,257,891</u>	<u>\$ 19,493,114</u>
Net Increase/(Decrease) in Cash	<u>\$ 20,465,425</u>	<u>\$ 14,933,356</u>
Cash – Beginning of the Year	<u>120,451,105</u>	<u>105,517,749</u>
Cash – End of the Year	<u>\$ 140,916,530</u>	<u>\$ 120,451,105</u>

## Ball State University

### Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Reconciliation of Net Operating Revenues/(Expenses) to Net Cash Provided/(Used) by Operating Activities:</b>		
Operating Income/(Loss)	\$ (156,852,051)	\$ (170,545,014)
Adjustments to Reconcile Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Depreciation Expense	22,171,528	20,203,280
Equipment Retired	874,485	271,850
Changes in Assets and Liabilities:		
Operating Receivables, Net	(7,328,022)	(3,082,249)
Inventories	100,641	(24,185)
Other Assets	(1,607,211)	32,099
Accounts Payable	1,426,684	(7,617,608)
Deferred Revenue	(1,258,784)	(1,588,295)
Deposits Held for Others	1,977,381	(120,628)
Compensated Absences	(35,141)	(320,730)
Advance on Long Term Grants	-	-
Long Term Accounts and Notes Receivable	597,335	419,256
Net Cash Provided/(Used) by Operating Activities	\$ (139,933,155)	\$ (162,372,224)

## Ball State University Foundation

### Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Operating Activities:</b>		
Change in Net Assets	\$ (5,385,168)	\$ 23,376,878
Items not Requiring/(Providing) Cash:		
Depreciation and Amortization	68,555	60,620
Bad Debt Expense	214,306	172,797
Net Realized and Unrealized (Gain)/Loss on Investments	(2,165,559)	(25,483,273)
Gain on Disposal of Property and Equipment	(606,654)	-
Writedown of Property Held for Sale	722,500	-
Change in Value of Trusts	511,715	(445,741)
Contributions of Marketable Equity Securities	(1,309,940)	(603,725)
Contribution of Real Estate		(52,000)
Contributions Restricted for Long-Term Investment	(1,703,083)	(1,483,364)
Net Change in Value of Split-Interest Agreements	818,193	(358,874)
Changes In:		
Contributions Receivable, Including Amortization of		
Discount on Pledges Receivable	3,184,912	3,320,085
Interest and Dividends Receivable and Other Assets	(1,290,400)	(1,049,173)
Accounts Payable and Accrued Expenses	1,884,491	(1,439,690)
Net Cash Provided by Operating Activities	\$ (5,056,132)	\$ (3,985,460)
<b>Investing Activities:</b>		
Purchase of Property and Equipment	\$ (13,567)	\$ (14,935)
Additions to Property Held for Resale	(141,615)	(2,000)
Proceeds from Sale of Real Estate	1,669,378	135,000
Purchase of Investments	(206,199,000)	(90,412,821)
Sales and Maturities of Investments	206,613,329	95,345,076
Net Increase in Cash Surrender Value of Life Insurance	(61,169)	(97,550)
Net Cash Provided/(Used in) Investing Activities	\$ 1,867,356	\$ 4,952,770
<b>Financing Activities:</b>		
Net Borrowings Under Line of Credit Agreement	\$ 954,000	\$ (1,895,000)
Proceeds from Contributions Restricted for Investment in Permanent Endowment	1,703,083	1,483,364
Net Cash Provided by Financing Activities	\$ 2,657,083	\$ (411,636)
Net Increase/(Decrease) in Cash	\$ (531,693)	\$ 555,674
Cash-Beginning of the Year	904,772	349,098
Cash-End of Year	\$ 373,079	\$ 904,772
<b>Interest Paid</b>	\$ 405,094	\$ 377,410

See Note A in Notes to Financial Statements

**Ball State University**  
**Notes to Financial Statements**  
**June 30, 2012**

**Note A – Significant Accounting Policies**

**Reporting Entity**

Ball State University (University) is a public institution of higher education governed by a nine-member Board of Trustees in accordance with IC 21-19-3. The University is considered to be a component unit of the State of Indiana. The Governor of Indiana appoints the Trustees, one of whom is a full-time student at the University and two of whom are nominated or selected by the Ball State University Alumni Association. All members of the Board of Trustees are appointed for terms of four years, except for the student member whose term is two years. No more than six of the non-student Trustees may be of the same sex, and at least one of them must be a resident of Delaware County, Indiana.

The University is included in the State's financial statements as a discrete component unit. Transactions with the State of Indiana relate primarily to: appropriations for operations, repairs and rehabilitations, and debt service for academic buildings; appropriations and other revenues for operation of the Indiana Academy for Science, Mathematics, and Humanities; grants for other purposes; and payments to State retirement programs for University employees.

**Financial Statements**

The financial statements of the University are prepared in accordance with the principles outlined in "Statement No. 35" of the Governmental Accounting Standards Board (GASB). The University has elected to report its financial results as a special-purpose government engaged only in business-type activities, using proprietary fund accounting and financial reporting. Required financial statements consist of:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements
- Required Supplemental Information other than Management Discussion and Analysis.

The financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting with the following exceptions, which are common practices in colleges and universities:

- Interest on student loans is recorded only when received.
- Gifts are recorded when received.

Major sources of revenues recorded in advance of the year in which the predominant amount of service is rendered are classified as deferred income on the Statement of Net Assets. Advances on exchange activities are recorded as deferred income. All other earned receipts are reported as revenue in the period they are received. Internal service activity revenues, including overhead charges, are offset against the expenses of internal service activities. Restricted and unrestricted resources are spent and tracked at the discretion of the department within the guidelines of donor restrictions.

**Operating Revenues**

Operating revenues encompass all revenues from exchange transactions arising from the activities necessary to carry out the primary mission of the University, including tuition and fees, grants and contracts, sales and services of educational departments and auxiliary enterprises net revenues. Revenues from investing activities, Ball State University Foundation donations, federal and state financial aid, and state appropriations are considered to be non-operating revenue.

## **Student Tuition and Fees**

Student tuition and fees are net of scholarship allowances funded from University funds as well as scholarships and fellowships funded from federal, state and other grants, to the extent that these funds offset all or a portion of each student's tuition and fees. Scholarships and grants awarded by third parties directly to students without University involvement in the decision-making process are not treated as a reduction of tuition and fees but rather as a source of direct payment.

The University conducts summer classes, which for billing purposes consist of two five-week summer sessions and a ten-week summer semester. The first summer session takes place during May and June, while the second summer session takes place during June and July, with slightly more days falling in July. The summer semester takes place during the two summer sessions. Bills are due on June 1. By June 30, students have exhausted most of their rights to any refund of tuition and fees. Therefore, all summer tuition and fees are reported as revenue for the year ended June 30 of that summer. Faculty salaries for summer are paid in June for first summer session and half of summer semester and in July for second summer session and the second half of summer semester.

## **Cash and Investments**

Investments are reported at fair value. Investments with a maturity date of one year or less are considered to be short-term investments, with the exception of those with a maturity date of three months or less, which are considered to be cash equivalents. All other investments are considered to be long-term.

## **Accounts Receivable and Notes Receivable**

Accounts Receivable and Notes Receivable are both reported net of a calculated reserve for uncollectible items. The reserves as of June 30, 2012, and June 30, 2011, were \$5,435,154 and \$5,177,435 respectively for accounts receivable. For notes receivable, the reserves were \$1,886,265 and \$1,963,265 for the same dates.

## **Inventories**

Inventories are stated at the lower of cost or market value, based on a physical count. Cost is based on purchases, and determined on a moving average basis for Central Stores and a first-in, first-out basis for all other inventories.

## **Capital Assets**

Capital assets consist of land and land improvements, infrastructure, buildings and building improvements, construction in progress, and equipment and are recorded at cost or, for contributed assets, at fair value at the date of acquisition. Additionally, in accordance with GASB 51, intangible assets costing in excess of \$100,000 and having a life greater than one year are capitalized. All land and building acquisitions are capitalized. Capital assets also include land improvements and infrastructure costing in excess of \$100,000. Building improvements are capitalized if the project cost more than \$100,000 or 20.0 percent of the building's replacement value and either extends the useful life of the building, changes the use or purpose of the original building, or expands the total square footage of the building. The University capitalizes equipment with a cost of \$5,000 or more and a useful life in excess of one year. Construction costs that cross fiscal years are capitalized as Construction in Progress, but are not depreciated until the assets are placed in service. Non-capital equipment and facility costs, routine repairs, and maintenance are charged to operating expenses in the year the expense was incurred.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, generally 50 years for buildings, ten to 50 years for exhaustible land improvements, and three to ten years for equipment. Land and inexhaustible land improvements are not depreciated.

The library collection is not depreciated. All items in the collection are deemed to retain their full value if they are still on hand. All new additions to the collection are treated as an expense at the time of purchase.

The art collection, housed primarily in the David Owsley Museum of Art at Ball State University, is not included, due to the difficulty in determining an accurate value, plus the restrictions in place regarding sales of artwork and use of the funds resulting from such sales, as well as disposition of the artwork in the unlikely event that the museum would cease to exist.

### Component Unit

The Ball State University Foundation (Foundation) is a legally separate, tax-exempt Indiana nonprofit corporation that is an Internal Revenue Code Section 170(b) (1) (A) organization organized and operated for the benefit of the University. Under the reporting standards of the Governmental Accounting Standards Board (GASB), the Foundation is defined to be a component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation by-laws allow for thirty-one voting directors, seven of whom serve by position. The seven directors who serve by position include the President of the University Board of Trustees, the University President, the Vice-Presidents of Business Affairs and Advancement and two other members of the University Board of Trustees. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Transactions with the Foundation primarily involve the funding of expenditures for which University funds are not available. These include both unrestricted funds and those restricted by donors. Expenditures include scholarships, funding of distinguished professorships, capital expenditures, and operational support.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's annual report for these differences.

To assist those reading the financial statements of the Foundation, the following excerpts from the Notes to Consolidated Financial Statements of the Ball State University Foundation are reproduced as follows:

**Note 18: Deficit Balance in Unrestricted Net Assets and Liquidity (complete reproduction)**

According to the Foundation's Stable Value Donor Agreements, unrealized and realized gains and losses related to Stable Value funds are allocated to unrestricted net assets, resulting in a deficit unrestricted net asset balance of approximately \$5.7 million at June 30, 2012. Total net assets of the Foundation at June 30, 2012 were approximately \$167.0 million. Management continues to believe the Foundation has sufficient liquidity to meet obligations as they become due and will be able to maintain operations into the future in the normal course of business. Management continues to monitor this area very closely and will take appropriate actions should circumstances dictate.

**Note 8: Line of Credit and Term Note Payable (complete reproduction)**

The Foundation has a \$15.0 million unsecured revolving line of credit with a group of banks expiring in June 2013. At June 30, 2012, there was \$4.4 million borrowed against this line. Interest varies with the one month London InterBank Offer Rate (LIBOR) plus 2.00 percent. There is a minimum interest rate of 3.25 percent, which was the interest rate in effect at June 30, 2012.

The Foundation also has a term loan facility that is due December 30, 2018. The line is unsecured, with a fixed interest rate of 3.30 percent. There was \$6.3 million borrowed against this facility at June 30, 2012. Repayments are \$250,000 quarterly beginning in October 2010 and extending through December 2018 when the remaining balance outstanding is due.

Both of these agreements contain covenants, which include maintaining minimum net assets of \$100.0 million. As of June 30, 2012, the Foundation is in compliance with all covenants.

Complete financial statements for the Foundation can be requested from the Foundation office at 2800 W. Bethel Ave., Muncie, IN 47306.

### **Note B – Compensated Absences**

The University records a liability for all unused vacation and sick leave balances that are payable upon employee termination in accordance with University policy. Accumulation of vacation and sick leave are dependent upon a University employee's job classification. University policy determines other variables within each job classification such as: job classification, years of service, employee's age, employee's eligibility for retirement, and in which retirement plan the employee participates. All of these variables are considered in computing the University's liability for compensated absences.

### **Note C – American Recovery and Reimbursement Act of 2009 (ARRA)**

The American Recovery and Reimbursement Act of 2009 was signed into law on February 17, 2009. The law provides federal spending and tax relief to stabilize and/or stimulate the economy. The University, Burris Laboratory School, and Indiana Academy for Science, Mathematics, and Humanities have been sub-recipients of ARRA funds.

Over the past four years from the inception of ARRA, the University has received funding for various projects and programs. The State of Indiana received funds from the ARRA to stabilize the state's budget. The University has been awarded and received ARRA funds through the State of Indiana to supplant State Appropriations and Capital Appropriations. The University has also received funds from the Auditor of State for Burris Laboratory School and Indiana Academy for Science, Mathematics, and Humanities. Other ARRA funds have been recorded through the Office of Contracts and Grants for various grant awards and programs. The University has also been awarded and/or received ARRA funding for Federal Work Study and COBRA premium subsidies.

Under the direction of the Indiana State Board of Accounts, ARRA funds received or those due from ARRA projects that have been started and not reimbursed are recorded on the financial statements. The receivable equals the amount of the unreimbursed expenditures for Contracts and Grants (\$0.3 million) as well as the COBRA premium subsidies (\$0.1 million) as shown on the University's quarterly 941 payroll returns. Therefore, the Accounts Receivable, Net and Unbilled Costs from the Statement of Net Assets, includes \$0.4 million of ARRA receivables at June 30, 2012.

The following summarized schedule, presents the effect of the ARRA funding on the University's Statement of Revenues, Expenses and Changes in Net Assets:

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues/(Expenses):</b>		
Federal Grants and Contracts*	\$ <u>(101,401)</u>	\$ <u>4,975,070</u>
Total ARRA Operating Revenues and Receivables	\$ <u>(101,401)</u>	\$ <u>4,975,070</u>
<b>Non-Operating Revenues/(Expenses):</b>		
State Appropriations	\$ -	\$ 1,000,000
Other Non-Operating Income	\$ <u>253,466</u>	\$ <u>27,997</u>
Total ARRA Non-Operating Revenues	\$ <u>253,466</u>	\$ <u>1,027,997</u>
Capital Appropriations	\$ <u>4,268,791</u>	\$ <u>2,526,233</u>
Total ARRA Funding	\$ <u>4,420,856</u>	\$ <u>8,529,300</u>

\* ARRA revenue adjusted in FY2012 for overstatement in FY2011, resulting in negative revenue listed for FY2012.

In accordance with the Section 1512 of the Recovery Act, the University will continue to provide quarterly reports to the funding agencies.

**Note D – Capital Assets**

	Book Value July 1, 2011	Additions	Deductions	CIP Transfers	Book Value June 30, 2012
Land and Inexhaustible Improvements	\$ 14,734,862	\$ -	\$ -	\$ -	\$ 14,734,862
Exhaustible Land Improvements	36,317,682	1,244,647	-	1,543,488	39,105,817
Infrastructure	26,702,984	7,603,648	-	34,715,887	69,022,519
Educational Buildings	309,830,007	11,738,917	-	20,000	321,588,924
Utility Buildings	15,133,068	1,135,810	-	7,420,763	23,689,641
Educational Equipment	47,699,763	3,729,981	1,992,898	-	49,436,846
Auxiliary Enterprise Buildings	325,930,510	1,723,958	-	31,427	327,685,895
Auxiliary Enterprise Equipment	10,915,319	843,680	222,643	-	11,536,356
Construction in Process	62,923,183	18,353,740	-	(51,262,747)	30,014,176
Other Property	1,504,280	-	-	-	1,504,280
Software	-	4,975,407	-	7,531,182	12,506,589
Total	<u>\$ 851,691,658</u>	<u>\$ 51,349,788</u>	<u>\$ 2,215,541</u>	<u>\$ -</u>	<u>\$ 900,825,905</u>
Less Accumulated Depreciation:					
Infrastructure	\$ 9,104,679	\$ 2,225,090	\$ -		\$ 11,329,769
Exhaustible Land Improvements	16,297,488	1,268,069	-		17,565,557
Educational Buildings	123,545,544	6,438,720	-		129,984,264
Utility Buildings	8,261,026	471,969	-		8,732,995
Educational Equipment	35,725,772	3,801,229	1,279,171		38,247,830
Auxiliary Enterprise Buildings	89,497,848	6,594,121	-		96,091,969
Auxiliary Enterprise Equipment	8,100,984	716,406	61,885		8,755,505
Other Property	134,955	30,596	-		165,551
Software	-	625,329	-		625,329
Total	<u>\$ 290,668,296</u>	<u>\$ 22,171,529</u>	<u>\$ 1,341,056</u>		<u>\$ 311,498,769</u>
Capital Assets, Net	<u>\$ 561,023,362</u>	<u>\$ 29,178,259</u>	<u>\$ 874,485</u>		<u>\$ 589,327,136</u>

**Note E – Bonds Payable**

Long term liabilities reported in the Statement of Net Assets include principal obligations for outstanding bonds and the noncurrent portions of premiums received on certain bond series and unamortized deferred costs. The premiums are being amortized over the life of each series and reduce the recorded interest expense. The deferred costs represent losses on refunding of previous debt and are amortized over the shorter of the life of the old or new debt. The current portions of Unamortized Premium on Bonds and Unamortized Deferred Costs are reflected in the Statement of Net Assets as Accounts Payable and Accrued Liabilities.

	Long Term Liabilities			
	June 30, 2012		June 30, 2011	
	Current Portion	Noncurrent Portion	Current Portion	Noncurrent Portion
Outstanding Bonds Payable	\$ 11,415,000	\$ 168,775,000	\$ 11,275,000	\$ 180,190,000
Unamortized Premiums on Bonds	445,970	5,517,128	445,970	5,963,097
Unamortized Deferred Costs	<u>(187,579)</u>	<u>(375,161)</u>	<u>(187,579)</u>	<u>(562,740)</u>
Total	\$ <u>11,673,391</u>	\$ <u>173,916,967</u>	\$ <u>11,533,391</u>	\$ <u>185,590,357</u>

Parking System Revenue Bonds, Series 2003, in the amount of \$6,495,000 were issued on August 14, 2003. Proceeds from the bonds were used to partially fund construction of the McKinley Parking Structure.

Housing and Dining System Revenue Bonds, Series 2006, in the amount of \$35,425,000 were issued on January 19, 2006. Proceeds from the bonds were used to partially fund construction of Park Residence Hall and the expansion and renovation of Woodworth Dining Hall.

Student Fee Bonds, Series I, in the amount of \$38,770,000 were issued on January 12, 1999. Proceeds from Series I were used to fund a portion of the construction of the Art and Journalism Building and to refund the outstanding Student Fee Bonds, Series G.

Student Fee Bonds, Series K, in the amount of \$21,975,000, were issued on January 3, 2002. Proceeds from Series K bonds were used to fund construction of the Music Instruction Building and to fund the cost of issuance and an amount of capitalized interest.

Student Fee Bonds, Series L, in the amount of \$16,425,000, were issued on July 21, 2004. Proceeds from Series L Bonds were used solely to refund all of the outstanding Student Fee Bonds remaining in Series J.

Student Fee Bonds, Series M, in the amount of \$21,280,000, were issued on December 15, 2004. Proceeds from Series M bonds were used to fund construction and reconfiguration of the David Letterman Communication and Media Building and to fund the cost of issuance and a certain amount of capitalized interest.

Student Fee Bonds, Series N, in the amount of \$63,615,000, were issued on January 30, 2008. Proceeds from Series N bonds were used to fund a portion of the University's conversion to a geothermal district heating and cooling system and to refund portions of the outstanding Student Fee Bonds remaining in Series I and K.

Student Fee Bonds, Series O, in the amount of \$29,175,000, were issued on March 12, 2009. Proceeds from Series O bonds were used to fund a portion of the expansion and improvement of the Student Recreation and Wellness Center.

Student Fee Bonds, Series P, in the amount of \$32,225,000, were dated and issued on March 15, 2011. Proceeds from Series P bonds were used to fund Phase I of the Central Campus Renovation and Utilities Improvement Project.

Long term bonds outstanding at June 30, 2012, were:

	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Retired 2011-2012</u>	<u>Outstanding June 30, 2011</u>
<b>Revenue Bonds:</b>				
Parking System Revenue Bonds of 2003:				
Current Interest Bonds, 2.00% to 5.00%	08/14/03	\$ 3,985,000	\$ 305,000	\$ 3,015,000
Term Bonds, 4.75%	08/14/03	2,510,000	-	2,510,000
Housing and Dining System Revenue Bonds of 2006:				
Current Interest Bonds, 3.50% to 5.00%	01/19/06	35,425,000	1,385,000	27,725,000
<b>Student Fee Bonds:</b>				
Student Fee Bonds, Series I:				
Current Interest Bonds, 3.25% to 5.20%	01/12/99	38,770,000	2,890,000	2,585,000
Student Fee Bonds, Series K:				
Current Interest Bonds, 4.00% to 4.60%	01/03/02	5,700,000	-	-
Term Bonds, 5.25% to 5.75%	01/03/02	16,275,000	870,000	1,895,000
Student Fee Bonds, Series L:				
Current Interest Bonds, 3.00% to 5.50%	07/21/04	16,425,000	935,000	10,775,000
Student Fee Bonds, Series M:				
Current Interest Bonds, 3.00% to 5.00%	12/15/04	19,355,000	840,000	14,740,000
Term Bonds, 3.80%	12/15/04	1,925,000	-	1,925,000
Student Fee Bonds, Series N:				
Current Interest Bonds, 3.50% to 5.00%	01/30/08	63,615,000	1,715,000	56,915,000
Student Fee Bonds, Series O:				
Current Interest Bonds, 3.00% to 5.25%	03/12/09	20,980,000	990,000	19,030,000
Term Bonds, 5.00%	03/12/09	8,195,000	-	8,195,000
Student Fee Bonds, Series P:				
Current Interest, 3.00% to 5.25%	03/15/11	<u>32,225,000</u>	<u>1,345,000</u>	<u>30,880,000</u>
Total Bonds		<u>\$ 265,385,000</u>	<u>\$ 11,275,000</u>	<u>\$ 180,190,000</u>

The principal and interest on bonds are, for the most part, payable from net revenues of specific auxiliary enterprises and/or from student fees. Debt service on student fee bonds, with the exception of Series O, is eligible for fee replacement from the State of Indiana.

Future debt service requirements for all bonds outstanding are as follows:

	Principal	Interest and Capital Appreciation	Total
2013	\$ 11,415,000	\$ 8,139,275	\$ 19,554,275
2014	11,475,000	7,678,895	19,153,895
2015	11,155,000	7,230,249	18,385,249
2016	10,240,000	6,792,482	17,032,482
2017	9,830,000	6,336,944	16,166,944
2018-2022	55,265,000	23,982,148	79,247,148
2023-2027	52,270,000	10,364,077	62,634,077
2028-2032	18,540,000	1,480,619	20,020,619
2033-2037	-	-	-
Total	<u>\$ 180,190,000</u>	<u>\$ 72,004,689</u>	<u>\$ 252,194,689</u>

### **Note F – Operating Leases**

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related assets and liabilities are not recorded in the accompanying financial statements. The total rental expense under these agreements was \$352,984 for the year ended June 30, 2012.

Future minimum lease payments on all significant operating leases with initial terms in excess of one year, as of June 30, 2012, are as follows:

	Future Lease Payments
2013	\$ 319,515
2014	192,007
2015	174,019
2016	124,200
2017	-
Total	<u>\$ 809,741</u>

### **Note G – Investments**

Investments held in the name of the University at June 30, 2012, consisted of the following:

	Market
U.S. Government Agency Securities	\$ 89,096,098
Certificates of Deposit	42,000,000
Demand Deposit Accounts	143,124,654
Other Government Held Assets and Investments	2,400,000
Total Investments	<u>\$ 276,620,752</u>

In compliance with its Investment Policy, the University does not invest in foreign securities and is, therefore, not subject to foreign currency risk. Types of investments held are authorized by the University's Board of Trustees and comply with applicable state statutes. They may consist of any of the following:

- Treasury Securities of the United States Government.
- Obligations of agencies of the United States Government. At June 30, 2012, the University held Agency Securities totaling \$89.1 million comprised of the following:

	<u>Market</u>
Federal Home Loan Mortgage Corporation	\$ 38,405,210
Federal National Mortgage Association	35,659,738
Federal Home Loan Bank	<u>15,031,150</u>
Total	<u>\$ 89,096,098</u>

- Certificates of deposit held at banks and savings banks incorporated under the laws of Indiana and national banking associations with banking offices in Indiana. At June 30, 2012, the University held the following certificates of deposit totaling \$42.0 million:

	<u>Market</u>
Fifth Third Bank	\$ 34,000,000
Mutual Bank	<u>8,000,000</u>
Total Certificates of Deposit	<u>\$ 42,000,000</u>

- Repurchase agreements collateralized at 105.0 percent of the par value with United States Treasury and Agency securities.
- Commercial paper rated A1 (Standard & Poor's) or P1 (Moody's).
- Money market mutual funds comprised of US Treasury and Agency securities and commercial paper rated A1 (Standard & Poor's) or P1 (Moody's).
- Interest-bearing deposit accounts at banks and savings banks incorporated under the laws of Indiana and national banking associations with banking offices in Indiana. At June 30, 2012, the University's interest-bearing deposit accounts totaled \$143.1 million and were comprised of working capital and short-term investments at the following banks:

	<u>Market</u>
First Merchants Bank, N.A.	\$ 12,924,654
First Financial Bank	38,200,000
Fifth Third Bank	6,000,000
Mutual Bank	40,000,000
The Huntington National Bank	<u>46,000,000</u>
Total Demand Deposit Accounts	<u>\$ 143,124,654</u>

Types of investments held by the Ball State University Foundation, a component unit, are authorized by the Foundation's Board of Trustees. They include a broader selection of investments including corporate bonds, common and preferred stocks, private equity, hedge funds, foreign investments and common trusts and mutual funds.

Market values are determined by reviewing quoted market prices. The premium or discount on market securities is amortized or accreted to determine investment value.

All investments owned by the University are held in safekeeping by the issuing or selling entity or in a custodial account. The University's investment policy allows up to 20.0 percent of the University's investments to be placed in certificates of deposit and interest-bearing deposit accounts with a single financial institution, and up to five percent with a single issuer of commercial paper.

Cash deposits, certificates of deposit and interest-bearing deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. Amounts exceeding the FDIC-insured amount are insured by the Indiana Public Depository Fund.

### Disclosures Related to Interest Rate Risk

Interest rate risk refers to changes in market interest rates having an adverse effect on the fair value of investments. Generally, the longer the term (life) of an investment, the greater its susceptibility to changes in market interest rates. The University manages its exposure to interest rate risk by purchasing a mixture of short-, intermediate- and long-term investments as a source of funds to meet the cash flow needs of current and future operations of the University.

The University's investment policy does not stipulate a specific earnings rate but has the following investment objectives:

- Safety and preservation of principal,
- Sufficient liquidity to meet working capital needs, planned capital asset expenditures, unanticipated spending requirements and investment opportunities,
- Maximum return on investment within prudent levels of risk and investment diversification, and
- Compliance with all statutory requirements of the State of Indiana.

### Distribution of Investments

The following table shows the distribution of the University's investments by maturity:

Investment by Type	Less than Three Months	Greater than or Equal to Three Months and Less than or Equal to One Year	Greater than One Year and Less than or Equal To Five Years	Total Market Value
U.S. Government Agency Securities	\$ -	\$ -	\$ 89,096,098	\$ 89,096,098
Certificates of Deposit	5,000,000	22,000,000	15,000,000	42,000,000
Demand Deposit Accounts	143,124,654	-	-	143,124,654
Other Government Held Assets and Investments	-	-	2,400,000	2,400,000
Total Investments	\$ 148,124,654	\$ 22,000,000	\$ 106,496,098	\$ 276,620,752

### Note H – Pension Plans and Other Post-Employment Benefits

#### Pension Plans

##### Public Employees' Retirement Fund

The University contributes to the Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time staff and service personnel are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) give the University authority to contribute to the plan and govern, through the PERF Board, most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of the member's contributions, set by state statute at three percent of compensation, plus the investment earnings credited to the member's account. The University has elected to make the contributions on behalf of the member. For the fiscal year ended June 30, 2012, there were 1,294 employees participating in PERF with an annual pay equal to \$47,684,764.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, or by calling (317) 233-3882.

The contributions requirements of plan members for PERF are established by the Board of Trustees of PERF. The University's annual pension cost for the current year and related information, as provided by the actuary, are as follows:

Annual Required Contribution	\$	4,785,539
Interest on Net Pension Obligation		(63,771)
Adjustment to Annual Required Contribution		(73,416)
Annual Pension Cost	\$	<u>4,795,184</u>
Contributions Made		<u>3,247,355</u>
Increase/(Decrease) in Net Pension Obligation	\$	1,547,829
Net Pension Obligation, July 1, 2010		<u>(911,017)</u>
Net Pension Obligation, June 30, 2011	\$	<u><u>636,812</u></u>

Contribution Rates:

University	7.00%
Plan Members (Paid by BSU)	3.00%
Actuarial Valuation Date	7/1/2011
Actuarial Cost Method	Entry Age - Normal Cost
Amortization Method	Level Dollar, Closed
	Amortization Period
Amortization Period	30 years from 07-01-97
Asset Valuation Method	Smoothed Market Value
	Basis

<u>Actuarial Assumptions</u>	<u>PERF</u>
Investment Rate of Return	7.00%
Projected Future Salary Increases	4.00%
Cost-of-Living Adjustments	1.00%

Three Year Trend Information			
Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 2,914,777	100.70%	\$ (1,116,566)
2010	\$ 3,213,927	93.60%	\$ (911,017)
2011	\$ 4,795,184	67.72%	\$ 636,812

Schedule of Funding Progress				
Actuarial				
Valuation Date	Value of Assets	Accrued Liability (AL)	Exces s/ (Unfunded) AL	Funded Ratio
07/01/2009	\$ 60,122,537	\$ 69,233,207	\$ (9,110,670)	86.8%
07/01/2010	\$ 49,239,962	\$ 73,110,138	\$ (23,870,176)	67.4%
07/01/2011	\$ 44,630,032	\$ 79,043,027	\$ (34,412,995)	56.5%

Date	Covered Payroll	Exces s/ (Unfunded) AL as a Percent of Covered Payroll
07/01/2009	\$ 48,188,042	(18.9)%
07/01/2010	\$ 46,975,329	(50.8)%
07/01/2011	\$ 46,975,329	(73.3)%

### **Teachers' Retirement Fund**

The Teachers' Retirement Fund (TRF) is a cost-sharing, multiple employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All faculty and professional personnel are eligible to participate in the defined benefits plan. State statute (IC 5-10.2) gives the University authority to contribute and governs most requirements of the system. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of the member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The University has elected to make the contributions on behalf of the member. For the fiscal year ended June 30, 2012, there were 339 employees participating in TRF with annual pay equal to \$19,119,170. The University contributes at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7.5 percent of covered payroll. The University's contributions to the plan, including those made to the annuity on behalf of the members, for the fiscal years ended June 30, 2012, 2011, and 2010, were \$2,009,189, \$2,121,742, and \$2,060,447, respectively. The University contributed 100.0 percent of required contributions for each of the fiscal years.

Certain employees who participate in TRF are also eligible for supplementary retirement benefits under a noncontributory plan wherein the employee may designate one or more of the following companies to administer the funds:

ING Financial Advisers, LLC  
 Fidelity Investments Institutional Services Company, Inc.  
 Lincoln Financial Group  
 Teachers Insurance and Annuity Association - College Retirement Equities Fund

The same companies administer the funds in the Alternate Pension Plan which is designed to provide benefits comparable to those under TRF and the supplementary plan.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, or by calling (317) 232-3882.

### **Alternate Pension**

Faculty and professional personnel of the University have the option, in accordance with IC 21-38-3-3 and IC 21-38-7-3, to participate in a defined contribution plan administered by the same companies as the TRF supplementary retirement contribution. Benefit provisions are established and/or amended by the University's Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. The University contributes 12.27 percent of each participating employee's base salary. For employees hired on or after October 1, 2010, the University contributes five percent of each employee's base salary for the first three years and 10.5 percent for each year thereafter. For the fiscal year ended June 30, 2012, the University contributed \$11,802,639 to this plan for 1,509 participating employees with annual payroll totaling \$105,853,263.

### **Early Retirement Program**

Eligible employees may participate in an early retirement program. The plan provides a severance payment equivalent to 15.0 percent of the employee's final year's pay. Such payments are made in the final year of employment; therefore, no liability exists beyond the end of the fiscal year in which employment terminates. The plan also permits participants to select a cash settlement option in lieu of life insurance that is equal to 40.0 percent of that life insurance. Payment is made 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. As of June 30, 2012, \$539,500 is recorded as a liability representing payments to be made in 2013 and 2014 to employees who retired under the program by June 30, 2012.

## **Other Post-Employment Benefits**

In addition to providing pension benefits, the University, as authorized by the University's Board of Trustees, provides certain health care and life insurance benefits for retired employees. Substantially all of the University's regular employees may become eligible for those benefits 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, approximately 1,988 participants were eligible and were receiving one or both of these benefits.

### **Plan Description**

The University's Retiree Health and Life Insurance Plans (Plans) are single-employer defined benefit health and life insurance plans administered by the University. The Plans provide medical, dental, and prescription drug insurance benefits to eligible retirees and spouses and life insurance benefits to eligible retirees. IC 21-38-3-3 assigns authority to the University's Board of Trustees to establish and amend benefit provisions for the University. The Plans issue a publicly available financial report that includes financial statements and required supplementary information for the Plans as a whole and for the participants. That report may be obtained by contacting Ball State University, Office of University Controller, AD 301, Muncie, IN 47306.

### **Funding Policy**

The contribution requirements for members of the Plans are established by the University's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, as well as amounts necessary to prefund benefits as determined annually by the University. In addition, the University has followed a practice of contributing additional amounts generated by savings within the employee plans as well as the retiree plans. For the fiscal year ended June 30, 2012, the University contributed \$7,963,753 for current claims and estimated applicable administrative costs and an additional \$728,775 from Medicare prescription drug subsidies, rebates on prescription drugs, and savings generated within the employee and retiree plans this year and last year, in order to prefund benefits. The savings represented by subsidies and rebates are lower for fiscal year 2012 due to adjustments made that reduced receivables for program funds that are no longer available such as the Early Retiree Reinsurance Program (ERRP). Plan members receiving benefits contributed \$2,391,172 for health insurance and \$18,501 for life insurance or approximately 25.0 percent of the total premiums assessed, through their required contributions, which for health insurance ranged, for those not eligible for Medicare, from \$36.83 to \$210.58 per month for single coverage and \$95.61 to \$546.63 for family coverage. For those eligible for Medicare, the monthly premiums were \$88.16 for medical and prescription drug coverage and \$8.38 for optional dental coverage. These premium amounts were also paid by Medicare-eligible spouses for their coverage. Retiree life insurance monthly premiums are on a sliding scale based on

coverage in the last year employed, with \$37,500 being the maximum amount available for retirees. The monthly premium is \$.055 per \$1,000 of coverage.

### **Annual OPEB Cost and Net OPEB Obligation**

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount 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 each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation (asset) to the plan:

Annual Required Contribution	\$ 7,197,347
Interest on Net OPEB Obligation	(511,655)
Adjustment to Annual Required Contribution	<u>397,837</u>
Annual OPEB Cost	\$ 7,083,529
Contributions Made	<u>8,335,353</u>
Increase (Decrease) in Net OPEB Obligation	\$ (1,251,824)
Net OPEB Obligation (Asset), Beginning of Year	<u>(6,822,059)</u>
Net OPEB Obligation (Asset), End of Year	\$ <u><u>(8,073,883)</u></u>

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 and the two previous years were as follows:

	Year <u>Ending</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation (Asset)</u>
Health Insurance	6/30/2010	\$ 10,782,403	95.3%	\$ (7,084,859)
	6/30/2011	10,739,139	93.5%	(6,384,931)
	6/30/2012	6,644,670	119.9%	(7,704,014)
Life Insurance	6/30/2010	\$ 537,185	225.8%	\$ (589,197)
	6/30/2011	444,769	65.8%	(437,128)
	6/30/2012	438,859	84.7%	(369,869)

## **Funded Status and Funding Progress**

		Actuarial		Unfunded	Funded	Covered	UAAL as
	Valu- ation Date	Value of Assets	Accrued Liability (AAL)	AAL (UAAL)	Ratio	Payroll	a % of Covered Payroll
Health	7/1/11	\$ 156,645,643	\$ 181,683,897	\$ 25,038,254	86.2%	\$ 157,397,746	15.9%
Life	7/1/11	<u>21,487,762</u>	<u>22,261,030</u>	<u>773,268</u>	96.5%	\$ 157,397,746	0.5%
Total		<u>\$ 178,133,405</u>	<u>\$ 203,944,927</u>	<u>\$ 25,811,522</u>	87.3%	\$ 157,397,746	16.4%
Health	7/1/10	\$ 127,901,788	\$ 192,195,650	\$ 64,293,862	66.5%	\$ 154,679,963	41.6%
Life	7/1/10	<u>18,429,554</u>	<u>20,150,137</u>	<u>1,720,583</u>	91.5%	\$ 154,679,963	1.1%
Total		<u>\$ 146,331,342</u>	<u>\$ 212,345,787</u>	<u>\$ 66,014,445</u>	68.9%	\$ 154,679,963	42.7%
Health	7/1/09	\$ 114,147,732	\$ 192,195,650	\$ 78,047,918	59.4%	\$ 151,120,585	51.6%
Life	7/1/09	<u>16,546,332</u>	<u>20,150,137</u>	<u>3,603,805</u>	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	7/1/08	\$ 142,837,134	\$ 171,887,451	\$ 29,050,317	83.1%	\$ 144,072,660	20.2%
Life	7/1/08	<u>22,321,203</u>	<u>19,036,901</u>	<u>(3,284,302)</u>	117.3%	\$ 144,072,660	(2.3)%
Total		<u>\$ 165,158,337</u>	<u>\$ 190,924,352</u>	<u>\$ 25,766,015</u>	86.5%	\$ 144,072,660	17.9%

As of June 30, 2011, the most recent actuarial valuation date, the health insurance plan was 86.2 percent funded. The actuarial accrued liability for benefits was \$181,683,897, and the actuarial value of assets was \$156,645,643, resulting in an unfunded actuarial accrued liability (UAAL) of \$25,038,254. The covered payroll (annual payroll of active employees covered by the plan) was \$157,397,746, and the ratio of UAAL to covered payroll was 15.9 percent. As of the same date, the life insurance plan was 96.5 percent funded. The actuarial accrued liability for benefits was \$22,261,030, and the actuarial value of assets was \$21,487,762, resulting in an unfunded actuarial accrued liability (UAAL) of \$773,268. The covered payroll (annual payroll of active employees covered by the plan) was \$157,397,746, and the ratio of the UAAL to covered payroll was 0.5 percent.

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are consistent with the long-term perspective of the calculations.

In the June 30, 2007, 2009 and 2011 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on plan assets, and is appropriate as long as the University makes annual contributions (through a combination of benefits paid from general assets and contributions to the VEBA) that are at least as large as the ARC. If the OPEB is "unfunded," the ARC would be calculated using a discount rate reflective of the University's internal rates of return, which would result in a significantly larger ARC. The actuarial assumptions for 2009 and 2011 also included an annual healthcare cost trend rate initially of eight percent for non-Medicare medical, seven percent for Medicare eligible medical, eight percent for prescription drugs, five percent for dental, and four percent for administrative costs, reduced to an ultimate

rate of four percent for administrative costs and 4.5 percent for everything else after 16 years. A payroll growth rate of four percent is assumed throughout. The actuarial value of the plan assets is market value. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 26 years.

**Fund Balances and Activity**

The VEBA trust fund established for the sole purpose of funding future retiree health care had the following activity for the year ended June 30, 2012:

Market Value at July 1, 2011	\$ 156,645,642
Transfer from Ball State University	-
Reinvested Net Earnings (Loss)	6,329,623
Unrealized Gain (Loss)	<u>(7,135,310)</u>
Fund Balance at June 30, 2012	\$ <u><u>155,839,955</u></u>

These funds cannot under any circumstances revert to the University.

The Life Insurance Continuance Fund established for the sole purpose of funding future retiree life insurance benefits had the following activity for the year ended June 30, 2012:

Fund Balance at July 1, 2011	\$ 21,487,762
Transfer from Ball State University	-
Reinvested Net Earnings (Loss)	669,641
Unrealized Gain (Loss)	(701,729)
Death Claims and Related Charges	<u>(1,393,119)</u>
Fund Balance at June 30, 2012	\$ <u><u>20,062,555</u></u>

These funds cannot under any circumstances revert to the University.

**Note I – Included Entities**

The University operates Burriss Laboratory School and the Indiana Academy for Science, Mathematics, and Humanities under the direction of the Teachers College. The financial activity for these entities is included in the exhibits.

### **Note J – Commitments and Contingent Liability**

During the normal course of operations, the University has become an interested party to various legal and administrative actions, the resolutions of which are not yet known. However, in the opinion of legal counsel and University management, the disposition of all pending litigation and actions will not have a material adverse effect on the financial condition of the University. To protect the integrity of any litigation or action, further details are held confidential.

The University has entered into loan guaranty agreements on two properties as discussed below:

Sigma Chi Fraternity, Epsilon Omega chapter in Muncie, Indiana – The loan agreement provided for the refinancing of an existing mortgage to gain more favorable terms and to obtain additional funds for renovation of the fraternity house. The University is guarantor of the loan that was issued for \$460,000. A ten-year pro forma budget provided by the chapter suggests that the housing corporation has the ability to service the debt and meet its other financial obligations.

Sigma Phi Epsilon Alumni Corporation – The loan agreement allowed for the construction of a new fraternity house for Sigma Phi Epsilon Fraternity, Indiana Gamma chapter in Muncie, Indiana. The University is guarantor of a term loan in the amount of \$1,040,000 and a term note in the amount of \$559,000. A review of the chapter's pro forma budget indicates that there will be adequate revenues to meet all debt and operating obligations.

The University has outstanding commitments for capital construction contracts of \$15,880,228 at June 30, 2012.

### **Note K – Risk Management**

The University is exposed to risks of loss related to:

- torts;
- theft of, damage to, or destruction of assets;
- errors or omissions;
- job-related illnesses or injuries to employees;
- life, health and other medical benefits provided to employees and their dependents; and,
- long-term disability benefits provided to employees.

The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings, contents and general liability the risk retention per incident is \$100,000. The University retains the entire risk for job-related illnesses or injury to employees, property damage to its auto fleet, and short-term disability. Auto liability, life insurance and long-term disability are handled through fully insured commercial policies. The University retains the risk for its medical benefits.

Separate funds and accounts have been established to measure the results of the various combinations of risk retention and commercial insurance. Periodically (in some cases annually), after reviewing exposures with insurance consultants and actuaries, adjustments are made to reflect potential liabilities arising from risk retention. The University accounts for incurred, but not reported, health care claims by calculating an amount based on a review of applicable claims submitted after year end, as well as past experience. This estimated liability of \$5.3 million at June 30, 2012, was determined by our actuarial consultants. Claims activity for the year was as follows:

Unpaid Health Care Claims at July 1, 2011	\$	4,716,402
Claims Incurred		43,499,548
Claims Paid		<u>42,951,900</u>
Unpaid Health Care Claims at June 30, 2012	\$	<u><u>5,264,050</u></u>

**Ball State University**  
**Required Supplemental Information**  
**June 30, 2012**

Other Post-Employment Benefits  
Retiree Health and Life Insurance Plans

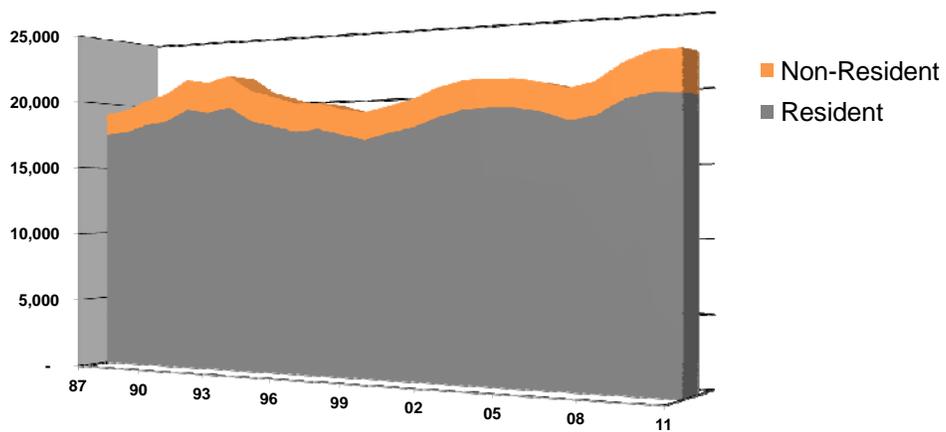
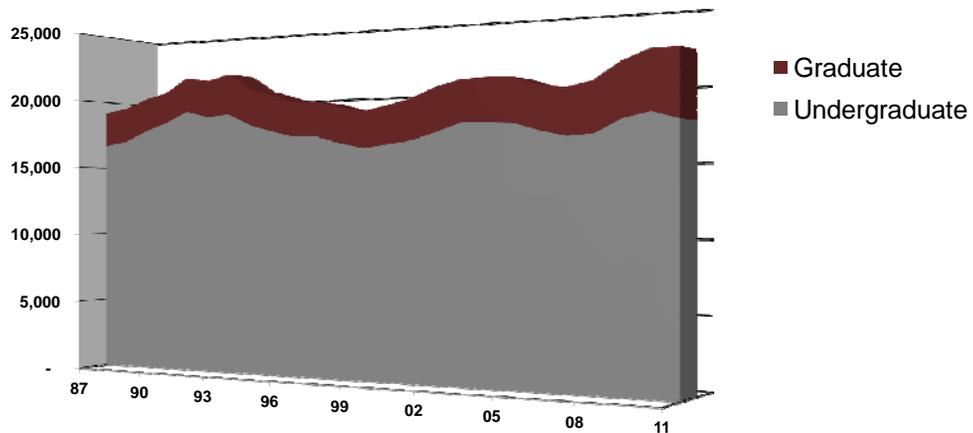
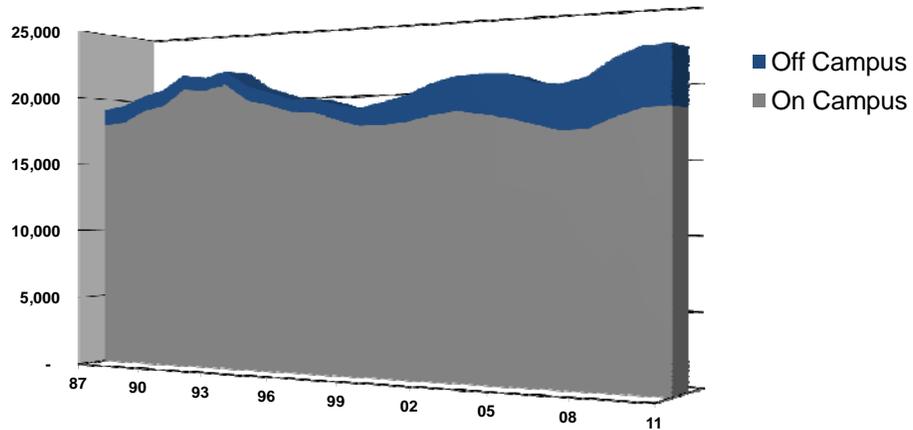
	Valu- ation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
		Value of Assets	Accrued Liability (AAL)				
Health	7/1/11	\$ 156,645,643	\$ 181,683,897	\$ 25,038,254	86.2%	\$ 157,397,746	15.9%
Life	7/1/11	21,487,762	22,261,030	773,268	96.5%	\$ 157,397,746	0.5%
Total		<u>\$ 178,133,405</u>	<u>\$ 203,944,927</u>	<u>\$ 25,811,522</u>	87.3%	\$ 157,397,746	16.4%
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 %

# *Supplemental Information*

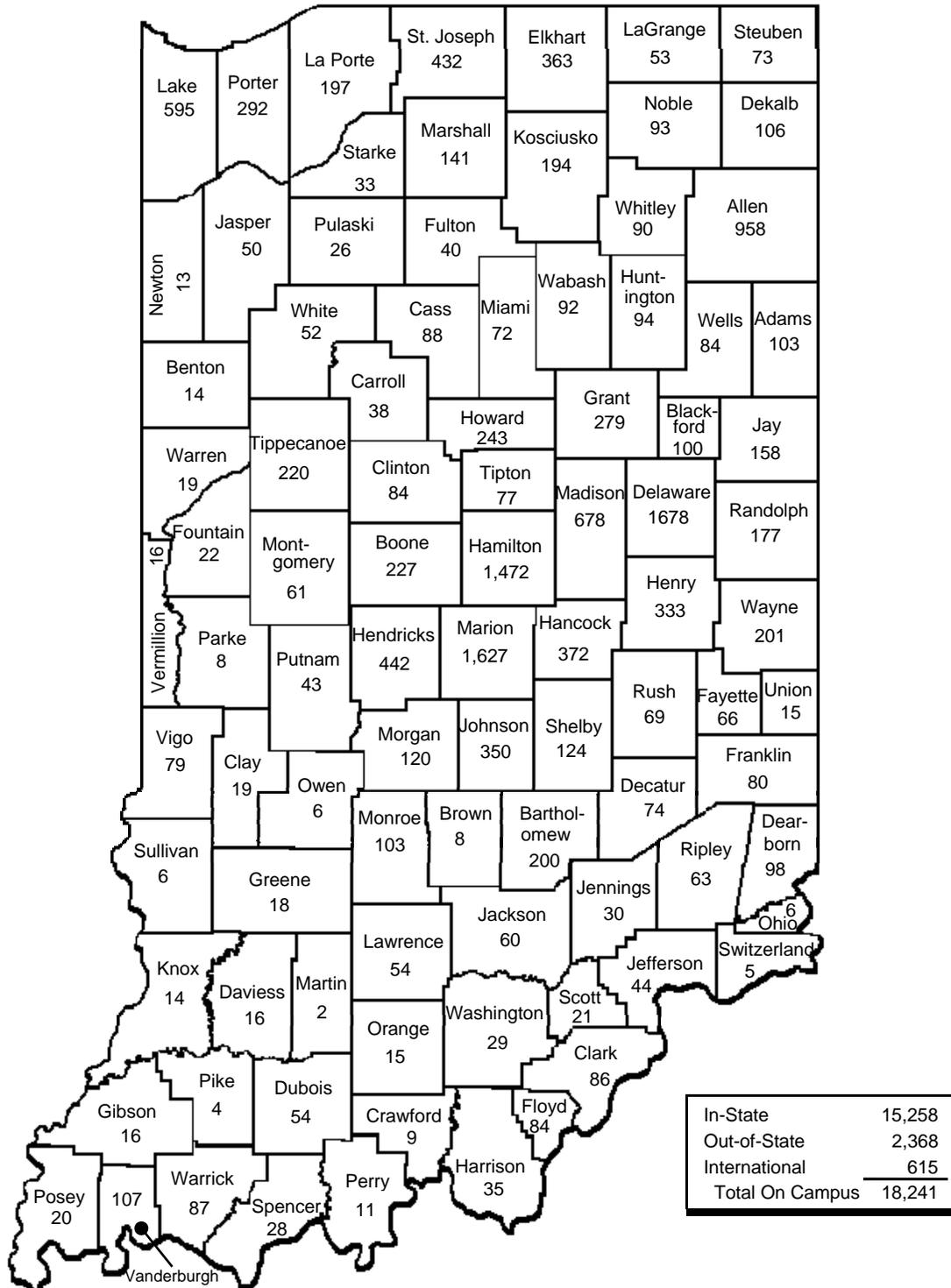


The following supplemental information has not been subjected to the auditing procedures applied to the basic financial statements and accordingly, the State Board of Accounts expresses no opinion thereon.

## Student Enrollment Fall Headcount 1987-2011

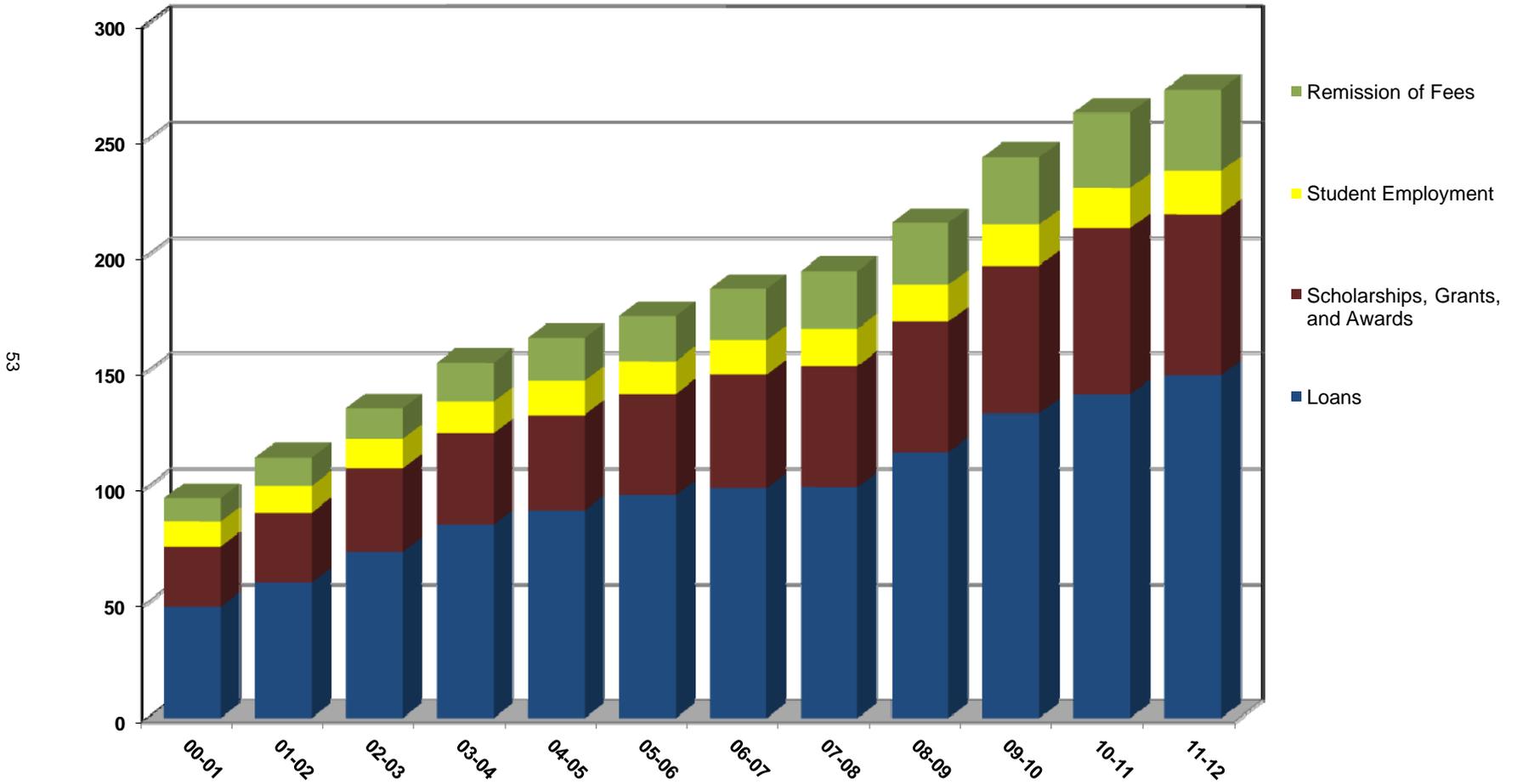


## Campus Enrollment by County Fall 2011





## Student Financial Assistance 2000-2001 through 2011-2012 (in millions of dollars)



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Ball State University  
**Schedule of Annual  
Requirements for Principal and Interest**

**Revenue Bonds—Parking Facilities**

Year Ended June 30, 2012

June 30	Principal	Interest	Total	Unliquidated Balance
2012				\$ 5,525,000
2013	\$ 320,000	\$ 246,800	\$ 566,800	5,205,000
2014	340,000	232,000	572,000	4,865,000
2015	350,000	217,325	567,325	4,515,000
2016	365,000	201,238	566,238	4,150,000
2017	385,000	184,363	569,363	3,765,000
2018	400,000	166,700	566,700	3,365,000
2019	420,000	148,250	568,250	2,945,000
2020	435,000	129,013	564,013	2,510,000
2021	455,000	108,419	563,419	2,055,000
2022	480,000	86,213	566,213	1,575,000
2023	500,000	62,938	562,938	1,075,000
2024	525,000	38,594	563,594	550,000
2025	550,000	13,063	563,063	-
Total	\$ 5,525,000	\$ 1,834,916	\$ 7,359,916	

Ball State University  
**Schedule of Annual  
Requirements for Principal and Interest**

**Revenue Bonds—Housing and Dining**

Year Ended June 30, 2012

June 30	Principal	Interest	Total	Unliquidated Balance
2012				\$ 27,725,000
2013	\$ 1,445,000	\$ 1,234,230	\$ 2,679,230	26,280,000
2014	1,500,000	1,175,330	2,675,330	24,780,000
2015	1,570,000	1,106,080	2,676,080	23,210,000
2016	1,650,000	1,025,580	2,675,580	21,560,000
2017	1,735,000	940,955	2,675,955	19,825,000
2018	1,815,000	861,280	2,676,280	18,010,000
2019	1,900,000	777,480	2,677,480	16,110,000
2020	1,990,000	688,190	2,678,190	14,120,000
2021	2,085,000	594,275	2,679,275	12,035,000
2022	2,190,000	487,400	2,677,400	9,845,000
2023	2,300,000	375,150	2,675,150	7,545,000
2024	2,410,000	267,944	2,677,944	5,135,000
2025	2,515,000	164,794	2,679,794	2,620,000
2026	2,620,000	55,675	2,675,675	-
Total	<u>27,725,000</u>	<u>9,754,363</u>	<u>37,479,363</u>	

Ball State University  
**Schedule of Annual  
Requirements for Principal and Interest**

**Student Fee Bonds**  
Year Ended June 30, 2012

June 30	Principal	Interest	Total	Unliquidated Balance
2012				\$ 146,940,000
2013	\$ 9,650,000	\$ 6,658,245	\$ 16,308,245	134,290,000
2014	9,635,000	6,271,565	15,906,565	127,655,000
2015	9,235,000	5,906,844	15,141,844	118,420,000
2016	8,225,000	5,565,664	13,790,664	110,195,000
2017	7,710,000	5,211,626	12,921,626	102,485,000
2018	8,085,000	4,829,038	12,914,038	94,400,000
2019	8,480,000	4,421,463	12,901,463	85,920,000
2020	8,905,000	3,999,070	12,904,070	77,015,000
2021	9,355,000	3,556,607	12,911,607	67,660,000
2022	8,270,000	3,128,750	11,398,750	59,390,000
2023	8,675,000	2,714,650	11,389,650	50,715,000
2024	9,105,000	2,278,413	11,383,413	41,610,000
2025	7,840,000	1,858,881	9,698,881	33,770,000
2026	8,240,000	1,456,488	9,696,488	25,530,000
2027	6,990,000	1,077,488	8,067,488	18,540,000
2028	7,315,000	731,994	8,046,994	11,225,000
2029	4,290,000	454,000	4,744,000	6,935,000
2030	4,510,000	234,000	4,744,000	2,425,000
2031	2,425,000	60,625	2,485,625	-
Total	\$ 146,940,000	\$ 60,415,411	\$ 207,355,411	

Ball State University  
**Schedule of Annual  
Requirements for Principal and Interest**

**Total Revenue and Student Fee Bonds**  
Year Ended June 30, 2012

June 30	Principal	Interest	Total	Unliquidated Balance
2012				\$ 180,190,000
2013	\$ 11,415,000	\$ 8,139,275	\$ 19,554,275	165,775,000
2014	11,475,000	7,678,895	19,153,895	157,300,000
2015	11,155,000	7,230,249	18,385,249	146,145,000
2016	10,240,000	6,792,482	17,032,482	135,905,000
2017	9,830,000	6,336,944	16,166,944	126,075,000
2018	10,300,000	5,857,018	16,157,018	115,775,000
2019	10,800,000	5,347,193	16,147,193	104,975,000
2020	11,330,000	4,816,273	16,146,273	93,645,000
2021	11,895,000	4,259,301	16,154,301	81,750,000
2022	10,940,000	3,702,363	14,642,363	70,810,000
2023	11,475,000	3,152,738	14,627,738	59,335,000
2024	12,040,000	2,584,951	14,624,951	47,295,000
2025	10,905,000	2,036,738	12,941,738	36,390,000
2026	10,860,000	1,512,163	12,372,163	25,530,000
2027	6,990,000	1,077,488	8,067,488	18,540,000
2028	7,315,000	731,994	8,046,994	11,225,000
2029	4,290,000	454,000	4,744,000	6,935,000
2030	4,510,000	234,000	4,744,000	2,425,000
2031	2,425,000	60,625	2,485,625	-
Total	\$ <u>180,190,000</u>	\$ <u>72,004,690</u>	\$ <u>252,194,690</u>	

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