



Maximizing Your Investment



Maximizing your investment in Ball State

Dear friends of Ball State University:

As the university embarks on the Ball State Bold capital campaign with the goal of raising \$200 million by 2011, the Ball State University Foundation will be there every step of the way. Our planning for the campaign began several years ago as we strived to perfect our investment policies and strategies and began investing in enhanced staff resources.

We know alumni and friends will embrace Ball State's exciting future and the Ball State Bold campaign, and we are ready. We are prepared to maximize these gifts so that the needs of today and future generations are balanced and optimized. The campaign initiatives have been crafted with great care. The use of these funds will span decades, and our goal is to perpetuate the impact of the Ball State experience through prudent, risk-weighted investment strategies.



We are a national leader among our peers in the sophistication of our investment process. This fiscal year, we were named the Small Nonprofit of the Year by *Foundation and Endowment Money Management*. This recognition noted our advanced use of direct hedge fund investments.

Through the diligent work of our Investment Committee, foundation staff, and consultant Hammond Associates, we have exceeded target returns on a one-, three-, and five-year basis. With a five-year average annual return of 12.6 percent, we exceeded the Standard & Poor's 500 Index return of 7.6 percent. Even in the challenging investment environment of fiscal year 2008, our one-year return exceeded the S&P 500 by a noteworthy 1,200 basis points.

We expect to be a top performer in investment returns, and we work purposefully to assure our students benefit as fully as possible from the generous gifts of our alumni and friends. In fiscal year 2008, we took a significant action in hiring our first ever chief investment officer (CIO). Tom Heck, formerly vice president of operations and treasurer, was selected as our new CIO and will devote his talents to the management of our investment portfolio. This is a meaningful

achievement of a key strategic goal, and we are confident our long-term investment returns and risk management will be enhanced by this commitment.

Examining exactly how we maximize donor funds, this year's annual report focuses on our investment policy—our governance, asset allocation, and performance. The university support section provides an overview on our ultimate mission: to support the continuing development of Ball State University.

We thank each one of our alumni and friends for boldly supporting the future of Ball State. Our board and staff are committed to maximizing your investment.

A handwritten signature in black ink, appearing to read "Anthony L. Schneider".

Anthony L. Schneider
Chairman, Board of Directors
Ball State University Foundation

A handwritten signature in black ink, appearing to read "David W. Bahlmann".

David W. Bahlmann
President and CEO
Ball State University Foundation





“Our friends and alumni should know that funds entrusted to our care are ascribed to a thoughtfully crafted investment strategy defined to maximize sustainable support of Ball State.”

*—Anthony L. Schneider,
chairman, Ball State University
Board of Directors*



Governance

At the heart of the governing process is the investment policy statement which defines investment objectives, responsibilities, and policies. Under the guidance of Chairman J. Richard Emens, the 15-person Investment Committee:

- directs how our investments will be managed
- makes asset allocation decisions and direct investments
- selects investment managers
- reviews the investment portfolio performance
- provides periodic reports to the board on investment operations and results.

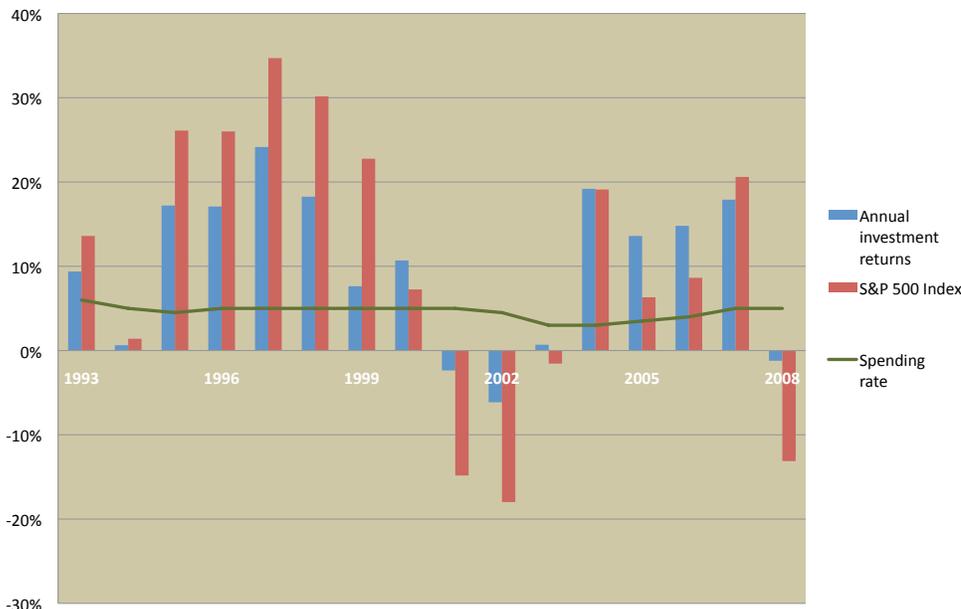
The target long-term investment return for the portfolio is 9 percent, to achieve the spending rate objective, to pay investment expenses, and to preserve the real (inflation-adjusted) value of investment assets:

Investment Return Goal	9.0 percent
Expenses and Administration	-1.5 percent
Inflation	<u>-2.5 percent</u>
Spending Rate	5.0 percent

We periodically review and adjust the spending rate based on cumulative performance and long-term outlooks. The spending rate for fiscal year 2008 was 5 percent but has been lowered to 4.5 percent for fiscal year 2009.



Investment Returns and Spending Rates FY 1993-2008



The Role of Staff

The investment committee is assisted by foundation staff members David Bahlmann, president/chief executive officer, and Tom Heck, chief investment officer, who are responsible for the day-to-day management of the portfolio, due diligence, research, and recommendations to the committee. Both meet individually with investment managers, attend and speak at conferences, and interact with other institutional peers on behalf of the foundation. Investment consultant Hammond Associates assists the committee and staff with policy and asset allocation development, models portfolio performance against long-term expectations, and performs research and due diligence reviews on current and prospective investment managers.



Asset Allocation

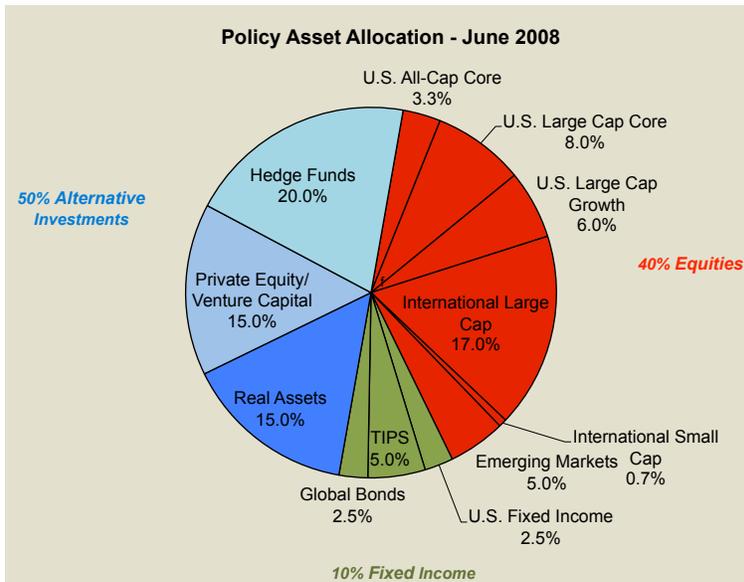
Our investment goal is to achieve a rate of return sufficient to provide a perpetual stream of financial support to Ball State while preserving the real value of our assets. To accomplish this goal, we are invested in a highly diversified portfolio of both traditional investments (equities and fixed income) and alternative investments.

In 2004, concerned about the outlook for traditional investments, the Investment Committee adopted an asset allocation composed significantly of alternative investments:

- Private equities, including buyouts and venture capital, enhance long-term return over traditional equities.
- Real assets, such as real estate, natural resources, and commodities, serve as a hedge against inflation.
- Hedge funds defensively reduce risk and protect capital in volatile markets.

Our hedge fund portfolio has been constructed so that its investments are diversified among themselves, and as a whole, have been successful at being diversified within the entire portfolio.

We estimate that this asset allocation will achieve an average annual investment return over the next 10 years of 9 percent with a one-year standard deviation of 11.6 percent. Even in these turbulent market times, the defensive portions of this diverse asset allocation are helping to preserve the value of our current portfolio.



Why are we invested in hedge funds?

"Hedge fund" is a term to describe a broad collection of investment funds usually using strategies and techniques unavailable to traditional managers, such as short selling, trading in derivatives, or taking positions in multiple parts of a company's capital structure. This allows managers broader opportunities to employ their skills and to more fully express their investment analysis.

We make investments of limited size in a broad range of hedge funds designed to capture a majority of the gains from up markets but to protect capital in down markets. To be considered, the due diligence process must confirm that a manager has a sound organization, high integrity, and a successful investment strategy. Our investments in hedge funds have a low correlation among the funds and in total have a low correlation with the rest of the portfolio. This construction controls the risk of hedge fund investments individually and decreases the risk of the overall portfolio.





"The work of the board's Investment Committee, along with consultant Hammond Associates, and foundation staff has achieved outstanding investment returns over the years. This group has worked diligently in formulating an investment strategy that is expected to grant us future relative rewards, even if we have less favorable markets."

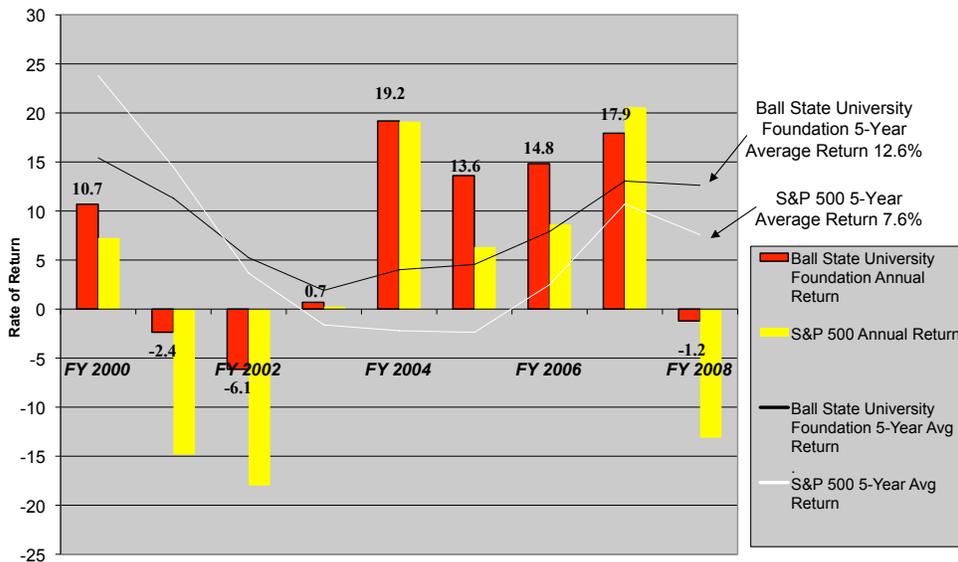
—J. Richard Emens, chairman, foundation investment committee



Performance

We have realized exceptional investment performance with a 5-year average annual return of 12.6 percent compared to the S&P 500 return of 7.6 percent. The most recent National Association of College and University Business Officers (NACUBO) Endowment Study (June 30, 2007) ranked our five-year return in the 16th percentile of reporting peer institutions.

Portfolio Investment Return



NACUBO Endowment Study 2007

Number of reporting institutions	785		
Ball State University Foundation rank by size	33rd percentile		
Ball State University Foundation percentile rank by average annual investment returns	1-Year 43rd Top Half	3-Year 13th Top Quartile	5-Year 16th Top Quartile

MISSION + MOMENTUM



“The generosity of our alumni and friends, coupled with the foundation’s favorable investment returns, has provided the resources needed to become a more distinctive university. We are indebted to these benefactors, whose vision and foresight will enable us to transform student lives for years to come.”
 —Jo Ann M. Gora, president, Ball State University



Student Managed Investment Fund instructor Manoj Athavale

University Support

Alumni and friends of Ball State made total contributions of more than \$23 million in fiscal year 2008, bringing the total contributions made to the foundation since 1951 to almost \$332 million. Permanently restricted contributions to endowments this year exceeded \$8.7 million.

Since 1951, the foundation has added more than \$132 million in investment earnings to those contributions, creating a pool of financial support that has provided more than \$234 million for university scholarships, programs, and facilities, with \$26 million added in fiscal year 2008.

The foundation manages the residual assets of \$230 million, representing endowments and available resources for the university and its students. Funds permanently restricted for endowments increased to \$123 million. Of total net assets, 31 percent are designated for scholarships and 25 percent for academic program support. In addition to providing for the financial stability of the foundation and its endowments, unrestricted net assets allow Ball State the flexibility to pursue and support top university priorities. Of the \$29 million in unrestricted net assets, more than \$14 million is designated to supplement various university programs including student recruitment, scholarships, faculty support, and capital projects.

Investing in Immersive Learning

The foundation has been doing some serious investing in some of the students at Ball State: \$500,000 worth of investments, to be exact. In the fall of 2005, the foundation allocated \$250,000 of its investment portfolio to the Miller College of Business Student Managed Investment Fund (SMIF). A year later, another \$250,000 was added to the fund.

SMIF is a course in the department of finance and insurance in which highly qualified upper classman and graduate students are entrusted to manage and grow part of our investment portfolio. The class enrolls approximately eight to 10 students each semester and is taught by Manoj Athavale and Mark Myring.

The objective of the course is to allow students with interest in investments and portfolio management the opportunity to gain experience managing an actual portfolio.

“The SMIF program helps students convert knowledge into skills as well as in developing a career path,” says Athavale, chairperson of the Department of Finance and Insurance.

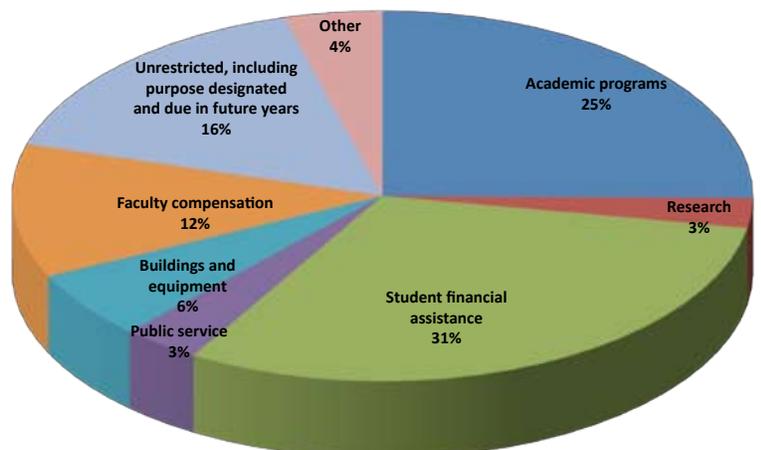
In addition, the foundation has two interns. The investment intern is given many of the same responsibilities of a true professional, including helping with the foundation’s annual audit, recording reports from investment managers, and maintaining an investment tracking database. The accounting intern’s responsibilities include assisting with the audit, working on account reconciliations, and taking on other special projects.

“I have gained valuable experience. I’ve had the opportunity to do things most interns might not have done,” says Mike Tester, investment intern.

Accounting intern Jason Lipps agrees.

“This immersive learning experience has allowed me to learn the not-for-profit side of accounting hands-on. I would recommend this program to others.”

Designation of Net Assets





Statement of Financial Activities

Unrestricted	2008	2007
Revenue, Gains, and Other Support		
Contributions and promotional activities	\$1,267,210	\$1,160,410
Investment income, including net realized and unrealized gains	(5,440,392)	21,358,433
Operating support fees	1,013,182	835,044
Net assets released from restrictions	13,879,778	14,121,672
Total revenue, gains, and other support	\$10,718,778	\$37,475,560
Expenses		
University programs, including capital projects	\$24,476,772	\$18,223,419
Management and general	1,354,313	2,559,767
Fundraising	3,554,566	1,832,009
Total expenses	29,385,651	22,615,195
Change in net assets	(\$18,665,873)	\$14,860,365
Temporarily Restricted		
Revenue, Gains, and Other Support		
Contributions	\$13,255,764	\$4,188,140
Investment income, including net realized and unrealized gains	6,237,149	5,895,989
Operating support fees	(168,740)	(192,418)
Change in value of split-interest agreements and annuities	(125,437)	167,378
Total revenue, gains, and other support	19,198,736	10,059,089
Net assets released from restrictions	(15,111,713)	(14,258,048)
Change in net assets	\$4,087,023	(\$4,198,959)
Permanently Restricted		
Contributions	\$8,760,261	\$15,270,397
Investment income, including net realized and unrealized gains	(3,192,604)	5,726,355
Operating support fees	(844,443)	(642,627)
Change in value of split-interest agreements and annuities	(707,253)	54,997
Total revenue, gains, and other support	4,015,961	20,409,122
Net assets released from restrictions	1,231,935	136,376
Change in net assets	\$5,247,896	\$20,545,498

Statement of Financial Position

Assets	2008	2007
Cash and investments in marketable securities	196,257,748	204,725,227
Contributions receivable	21,563,679	19,116,806
Beneficial interests in external trusts	3,727,629	5,717,091
Investments in split-interest agreements	2,601,648	3,593,698
Property and equipment	4,632,950	4,348,252
Other assets	1,069,205	951,352
Total assets	229,852,859	238,452,426
Liabilities		
Accounts payable	10,405,473	9,373,748
University grants payable	1,341,508	1,341,508
Accrued expenses	34,018	317,590
Bond payable	10,000,000	10,000,000
Annuity and trust obligations	2,782,093	2,798,860
Total liabilities	24,563,092	23,831,706
Net assets		
Unrestricted	29,559,890	48,225,761
Temporarily restricted	52,682,378	48,595,356
Permanently restricted	123,047,499	117,799,603
Total net assets	205,289,767	214,620,720
Total liabilities and net assets	229,852,859	238,452,426

Ball State University Foundation

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765-285-8312
Toll-free: 888-235-0058

New Endowments Fiscal Year 2008

Stable Value

- Carol S. Chalk Memorial Scholarship
- William and Maudames Conner Scholarship Fund
- Jerry Isch Scholarship
- Charles Kalil and Roy M. Johnson Memorial Scholarship
- Dr. Mir Masoom Ali Scholarship
- McIntosh-Ross Family Scholarship
- Dr. Kenneth E. Poucher Department of Technology Scholarship
- Warner Family and Consumer Science Scholarships

Conversion

- Building Better Communities
- Dr. William Bock Scholarship
- Peter and Monica Campanella Scholarship
- Construction Management Scholarship
- Guardian Scholars Endowment Fund
- Kiser-Noel Business Experiential Learning Fund
- Rose H. Meyer Memorial Scholarship
- Lois Taylor Webster Scholarship
- Joe and Carol Trimmer Honors Thesis Prize
- Dr. Park Wiseman Scholarship

Legacy

- AEGON Actuarial Science Scholarship
- Richard and Cinda Hibschan Scholarship
- Robert M. Hoffer Professorship
- Hamer and Phyllis Shafer Fellows Program

University Scholarships

- Rock-Tenn Converting Company Scholarship

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**BALL STATE UNIVERSITY
FOUNDATION**