

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005



B A L L S T A T E

U N I V E R S I T Y

MUNCIE, INDIANA

To

The President and Board of Trustees

Ball State University

This financial report presents
the financial position of
Ball State University at June 30, 2005,
and the results of activities for
the year then ended.

Thomas J. Kinghorn
Vice President for Business Affairs
and Treasurer

December 16, 2005

This financial report has been prepared
by the Office of Controller and Business Services
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

2004-2005

Frank A. Bracken, Indianapolis, IN

Thomas L. DeWeese, Muncie, IN

Ceola Digby-Berry, Muncie, IN

Kimberly Hood Jacobs, Indianapolis, IN

Hollis E. Hughes Jr., South Bend, IN

Richard L. Moake, Ft. Wayne, IN

Gregory A. Schenkel, Indianapolis, IN

Gregory S. Fehrbach, Indianapolis, IN

Kyle M. Mitchell, Fishers, IN
(appointment expired June 30, 2005)

Danielle M. Frazier, New Palestine, IN
(appointed July 27, 2005)

Officers

Thomas L. DeWeese President
Frank A. Bracken Vice President
Gregory A. Schenkel Secretary
Hollis E. Hughes Jr. Assistant Secretary

University President

Jo Ann M. Gora appointed August 9, 2004
Beverley J. Pitts.....appointed Acting President February 1, 2004 thru August 8, 2004



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Ball State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2005 and 2004. 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 audit. 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. The financial statements of this component unit were audited by another auditor 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Ball State University, as of June 30, 2005 and 2004, and the 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 November 17, 2005, on our consideration of Ball State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

November 17, 2005

STATE BOARD OF ACCOUNTS


Ball State University Management's Discussion and Analysis June 30, 2005

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 campus in Muncie 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 consists of seven colleges, offering 14 associate-level programs, 155 undergraduate degree programs, 94 masters-level programs, 14 doctoral-level programs and three specialists programs, all fully accredited by the North Central Association of Colleges and Schools (who in 2004 re-accredited the University for another ten years), as well as various schools, departments and programs being accredited by approximately 36 other professional agencies, licensing boards, and state agencies. Enrollment in these programs for Fall 2004, totaled 18,519 full-time equivalent students from a total headcount of 20,717. On-campus enrollment totaled 16,822 full-time equivalent students from a total headcount of 18,043, approximately 7,000 of whom were housed in University residence halls and apartments. 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. To carry out its mission of teaching, research and service to the citizens of the State of Indiana, Ball State University employs approximately 2,700 people full-time, 3,100 part-time (90 percent of whom are students), and 900 graduate assistants. The campus facilities include 120 buildings, 94 of which are considered major, on 1,037 acres.

What follows is the Ball State University Financial Report for the year ended June 30, 2005, 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 of the University, the 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, the University's largest revenue source and one which is used primarily for operations, is 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.

- Capital assets include construction in progress and infrastructure, as well as completed capital projects and capital acquisitions.

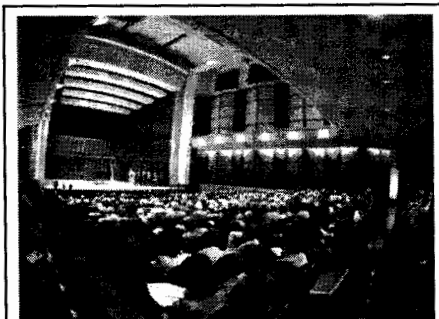
This financial report also includes, in addition to the basic financial statements referred to above, management's discussion and analysis, the report of independent auditors, notes to the financial statements and supplemental information. Included also, in accordance with GASB Statement No. 39, separately 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.

Financial Highlights

The University's operating budget was the second year of the 2003-05 biennium, which was impacted by the State of Indiana's lower revenues as a result of the sluggish economy. Included in the biennial budget was 12.5 percent of the formula appropriation for renewal and replacement of academic and administrative buildings and infrastructure, all of which was utilized in the first year of the biennium to address critical needs. During the year, the University issued \$21.0 million in bonds to construct the Communication Media Building and \$16.4 million in bonds to retire an earlier series of outstanding bonds which had been originally issued at a higher interest rate in 2000. Finally, the State, having withheld payment of one monthly appropriation in fiscal 2003, paid that amount during fiscal 2005 and once again withheld payment of one monthly appropriation this year. Because the legislature intends to pay this amount in the future, a receivable has been established; and the revenue has been recognized as an increase in net assets for 2005.

The University received 242 funding awards for research and other sponsored programs, totaling \$25.7 million, a seven percent increase over the previous year. Included in this total is \$0.8 million from Best Buy Children's Foundation for the electronic field trips, a program that began in 1996 and continues to grow in popularity and funding. Another noteworthy award for an ongoing program was \$0.8 million for CAPE, the Community Alliance to Promote Education in Delaware County, Indiana. This program provides extra help for students who need it to help them succeed.

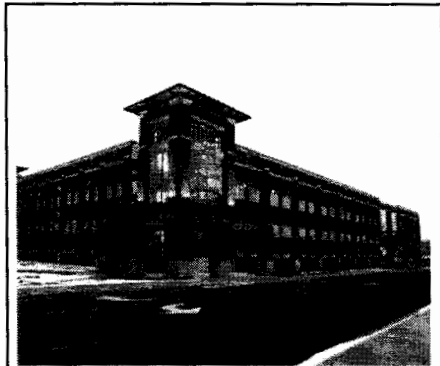
Supporters of Ball State University contributed \$18.0 million in private gifts during fiscal 2005, the most successful single year, without a major estate gift, in the University's history. Included in this total was the \$12.0 million Drive to Distinction campaign to renovate and expand the football stadium, which included 83 new donors and 278 donors whose giving



Opening night, Sursa Performance Hall,
Music Instruction Building

surpassed their previous highest levels.

Construction of the \$22.0 million Music Instruction Building, featuring state of the art recording studios and a tunable performance hall, was completed during the fall of 2004-05. During the year, the



McKinley Avenue Parking Garage

University also completed the McKinley Avenue Parking Structure located next to the Music Instruction Building. Construction also began on the \$21.0 million Communication Media Building, which will be completed in 2007.

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 interest on student loans, which is recorded only when received, and gifts and grants, which are generally recorded only when received.

The following is a summary of the major components of net assets at June 30, 2005.

		Net Assets June 30, 2005 and 2004	
		2005	2004
Assets:			
Current Assets		\$ 102,077,872	\$ 118,152,309
Noncurrent Assets:			
Capital Assets, Net of Depreciation		402,985,745	398,459,220
Other		<u>152,357,413</u>	<u>102,997,910</u>
	Total Assets	\$ <u>657,421,030</u>	\$ <u>619,609,439</u>
Liabilities:			
Current Liabilities		\$ 32,116,879	\$ 37,134,148
Noncurrent Liabilities		<u>100,558,633</u>	<u>81,338,349</u>
	Total Liabilities	\$ <u>132,675,512</u>	\$ <u>118,472,497</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt		\$ <u>325,281,186</u>	\$ <u>321,622,072</u>
Restricted		\$ <u>20,048,768</u>	\$ <u>24,274,524</u>
Unrestricted:			
Internally Restricted for Specific Purposes		\$ 179,333,984	\$ 155,161,116
Unrestricted		<u>81,580</u>	<u>79,230</u>
	Total Internally Restricted and Unrestricted	\$ <u>179,415,564</u>	\$ <u>155,240,346</u>
	Total Net Assets	\$ <u>524,745,518</u>	\$ <u>501,136,942</u>
	Total Liabilities and Net Assets	\$ <u>657,421,030</u>	\$ <u>619,609,439</u>

Current and Other Assets

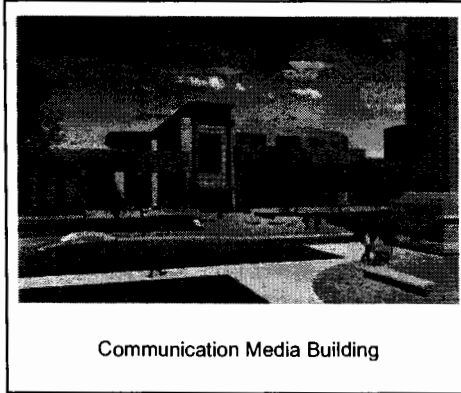
Despite increased student accounts receivable due to increased student fee revenues, current assets decreased in 2005 while non-current assets increased. Because of lower interest rates throughout the first nine months, the University invested more of its cash in longer-term (maturities up to five years) instruments. In addition, the State of Indiana has advised us that the state appropriation receivable, amounting to one month's worth of total appropriations for 2005, will not be paid in 2006, but should be paid at a future date. This results in the receivable being reclassified to non-current assets. Since 2002, the State has withheld one month's appropriation each year and paid the previous year's withheld appropriation. As a result, this item was added to accounts receivable in current assets for 2002, 2003, and 2004.

Capital Assets

On June 30, 2005, the University had \$325.3 million invested in capital assets, net of accumulated depreciation of \$210.1 million and related debt of \$77.7 million. Depreciation charges totaled \$13.8 million for the current fiscal year. Major construction during the year included \$1.7 million to complete the Music Instruction Building, \$2.8 million to complete the McKinley Parking Structure, and \$2.4 million to begin construction of the Communication Media Building, all of which were funded from bond proceeds. Current operating funds were utilized to purchase \$4.2 million in educational equipment, much of which replaced mostly fully-depreciated equipment dispositions originally costing \$2.1 million. The University also acquired \$2.2 million and disposed of \$1.3 million (original cost) of library books, periodicals and related materials.

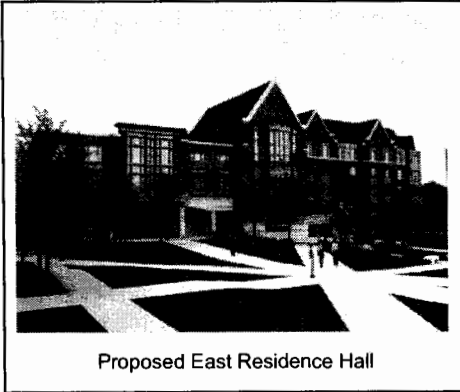
Construction began in 2005 on the \$21.0 million Communication Media Building, a state of the art facility which is expected to be completed by fall of 2007 for students in the College of Communications, Information and Media. The new

facility will house the radio station, the Department of Telecommunications, the Department of Communication Studies, the Center for Information and Communication Sciences and the Office of the Dean of the College. This will allow students and faculty to collaborate and engage in endeavors with colleagues in related disciplines, as well as support elements of the iCommunication initiative designed to explore and research emerging and converging technologies. The building was financed by student fee bonds issued in 2005.



Communication Media Building

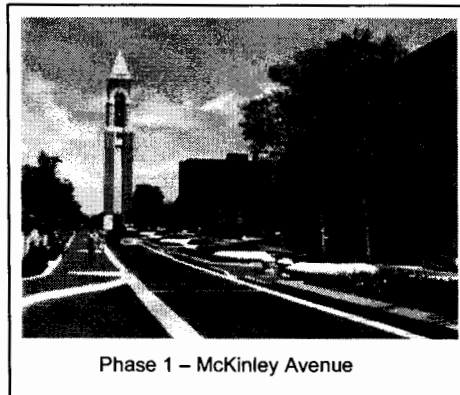
Construction will also begin in the near future on a new residence hall, which will accommodate over 500 students, primarily in rooms



Proposed East Residence Hall

clustered around semi-private baths, and will also include a limited number of rooms with private baths. The facility will also include seminar and multi-purpose rooms to facilitate living/learning opportunities for residents. It is anticipated that this new residence hall, together with a renovated Woodworth Dining Service, will require approximately \$36.0 million in financing.

Construction began in the spring of 2005 for the McKinley and Riverside Avenues Street Safety Improvement Project, and Phase I, McKinley Avenue from Riverside to Petty, was completed before Fall, 2005.



Phase 1 – McKinley Avenue

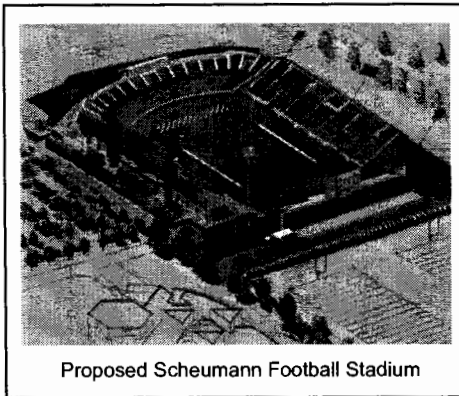
Phase II, McKinley

Avenue from Petty to Bethel, will begin in Spring, 2006, and will be completed Fall, 2006. Phase III, Riverside Avenue East and West of McKinley, will begin in Spring, 2007, and will be completed Fall, 2007. This project, funded by federal grants and local matching funds, impacts the two principal arteries within the main campus, and features improvements to surface drainage, vehicular traffic flow, pedestrian safety, lighting and traffic signals, and crosswalks and waiting areas with raised medians.

Construction will also begin in the near future on the planned renovation and expansion of Scheumann Football Stadium.

Funding for this expansion is provided by the successful Drive for

Distinction Campaign, which had a \$12.0 million goal.



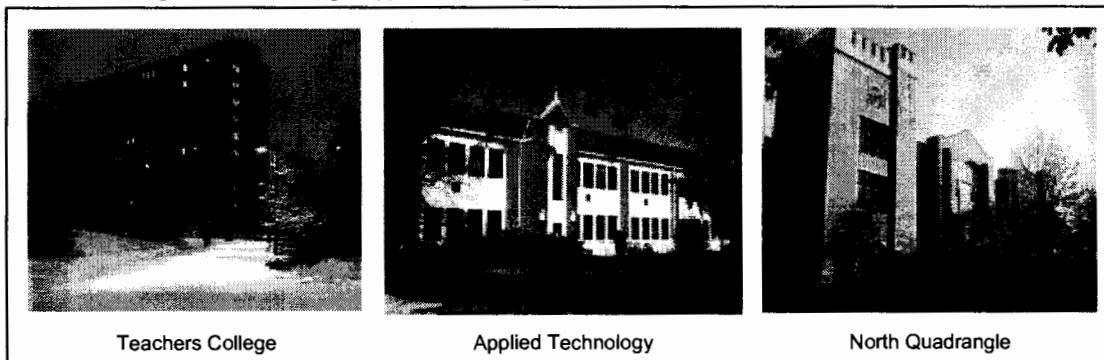
Proposed Scheumann Football Stadium

One of the major challenges confronting the University is the stewardship of facilities and equipment resources. This includes modernization and renewal of 120 buildings (94 of which are considered major) totaling 6.1 million gross square feet. Campus buildings involve 32 acres of roof area, contain 100 elevators, 165 technology-equipped general-purpose classrooms and technologically complex mechanical operating systems in each structure. The average building at Ball State University is 42 years old. The University also owns 1,037 acres of land, 715 of which are developed. Under the ground, the University has over 15 miles of steam, condensate and chilled water piping; over 18 miles of sewers; over seven miles of water piping; over 48 miles of electrical power distribution wiring; and 4,865 miles of communication cable to

connect buildings. Above the ground, the University has 1,227 outside lighting poles, 33 miles of sidewalks and service roads, and 40 acres of parking. All of these assets have their own unique life cycles for maintenance and renewal, and many systems or elements are now at or near replacement.

The current replacement value of campus facilities exceeds \$1.0 billion based on valuations determined by utilizing the Market Construction Index. Building construction and ongoing renewal of University property is financed following methods specific to the type and use of the facility involved. All academic and administrative buildings are funded through bond financing and state appropriated funds allocated on a biennial basis by the Indiana General Assembly. All other buildings such as residence halls, athletic facilities and other auxiliary buildings must rely on user charges and other fees as a source of financing. Approximately half of the campus square footage is dedicated to academic and administrative uses; and the remaining buildings contain housing and dining, athletic and other uses. During the 2001-2003 biennium, the State's annual capital appropriation for renewal and replacement of academic and administrative facilities was reduced, which resulted in the loss of over \$8.0 million in funding for necessary renewal and replacement of academic buildings and infrastructure. For the fiscal years 2004 and 2005, only 25 percent of the formula funding for renewal and replacement was appropriated, and during 2004, the amount was further reduced to 12.5 percent for the year. As a result of these actions and previous underfunding, by the end of fiscal year 2005, Ball State University has nearly \$58.0 million in deferred maintenance expenditures for academic buildings and infrastructure. Further deferral of these necessary expenditures will result in a deterioration of the University's facilities and greater renewal costs, unless remedied in the near future.

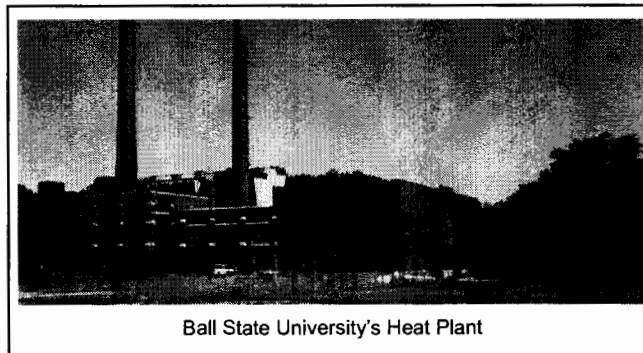
In addition to the estimated deferred maintenance evaluation referred to earlier, major renovations are needed in three academic buildings: Teachers College, Applied Technology and North Quadrangle. It is estimated that the cost to



renovate these three buildings will be \$28.0 million.

The University also has a heat plant that needs major renovation, including retiring and replacing four coal-fired boilers, the oldest of which is 63 years old. The estimated cost of this project is \$48.0 million. These two projects were submitted with the legislative request for the 2005-07 biennium and the University was authorized to proceed on the heat plant project.

Campus facilities also include residential units capable of housing approximately 7,000 students, as well as dining facilities. Most residence halls and dining facilities on the campus were originally constructed in the 1950's and 1960's. As a consequence, nearly all of these facilities require increasing levels of attention for renewal. During 2001 and 2002, a comprehensive study of residential and dining units was undertaken by Anderson Strickler, LLC, with the outcome being a detailed plan for the investment of an estimated \$250.0 million in renewal and new construction projects over the next 15 years. Unlike capital expenditures for academic buildings, these improvements must be financed utilizing residence and dining revenues accumulated over past years, together with debt to be serviced utilizing future residence and dining revenues. All of this will need to be accomplished while, at the same time, maintaining room and board rates that are competitive with other housing options available to students.



Debt Administration

The University had \$94.1 million of bond indebtedness outstanding at June 30, 2005, compared to \$76.8 million outstanding the prior year end. These bonds have an underlying rating of A1 (Moody's) and A+ (Standard & Poor's) and an insured rating of Aaa (Moody's) and AAA (Standard & Poor's). Student Fee Revenue Bonds in the amount of \$16,425,000 were issued in 2005 to retire an earlier series of outstanding student fee bonds which had a higher interest rate. Student Fee Revenue Bonds in the amount of \$21,280,000 were also issued in 2005 to fund construction of the Communication Media Building. The University has a \$1,500,000 note payable to Old National Bank, Muncie, Indiana to provide interim financing for the construction and renovation of surface parking areas on campus. More details regarding the University's bonds payable are presented in the footnotes to the financial statements.

Due to the University's prudent financial stewardship, Ball State University's ratio of debt service to operating appropriation ranks lowest of all the state universities in Indiana. In fact, Ball State University could increase this ratio by nearly 50 percent and still not exceed the average ratio for the other state universities. This is due to the University's effective use of internally generated funds and savings to extend the useful life of existing buildings. This also means that Ball State University has available debt capacity to assume more debt in the future to address the pressing capital needs of the campus.

Net Assets

The University's net assets totaled \$524.7 million as of June 30, 2005. This includes the \$325.3 million in capital assets net of depreciation and related debt. It also includes \$1.0 million in nonexpendable endowment restricted for scholarships, as well as \$19.0 million in expendable amounts restricted for student loans, debt retirement, construction, and external grants. Of the remaining amount, nearly all is internally restricted for such purposes as self-insurance reserves, scholarships and loans, funding for instructional and athletic camps, workshops, field trips, new building construction and renewal and replacement of capital assets, as has been outlined above.

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, 2005. Note that, for purposes of this statement, state appropriations are considered non-operating revenues.

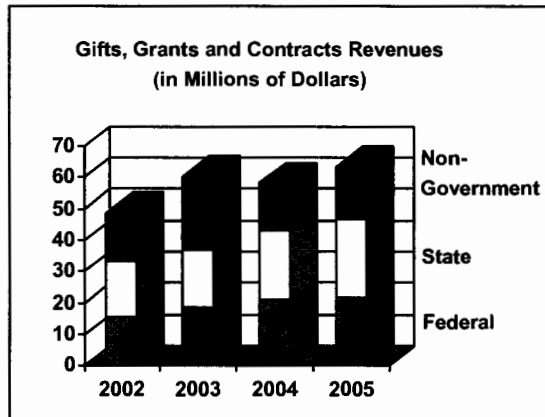
	Change in Net Assets Year Ended June 30, 2005 and 2004	
	2005	2004
Operating Revenues	\$ 209,691,805	\$ 203,892,856
Operating Expenses	<u>324,993,079</u>	<u>310,426,453</u>
Net Operating Income/(Loss)	\$ (115,301,274)	\$ (106,533,597)
Net Non-Operating Revenues	138,909,850	131,169,197
Other Revenue – Capital Appropriations	<u>-</u>	<u>655,254</u>
Increase in Net Assets	\$ <u>23,608,576</u>	\$ <u>25,290,854</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 capital purposes.

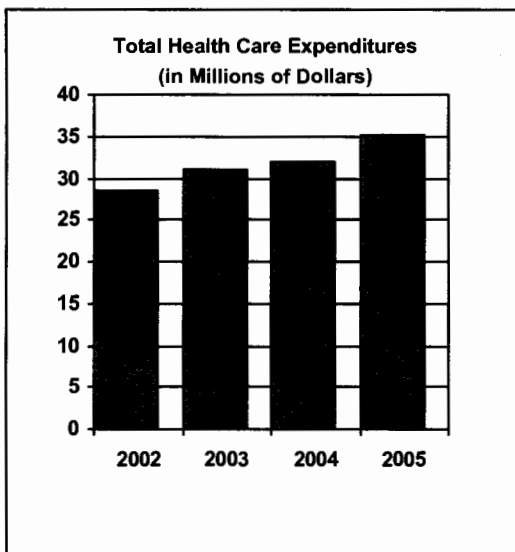
Student tuition and fees revenue increased \$4.1 million as a result of rate increases, and auxiliary enterprises revenue decreased \$1.3 million due to reduced residence hall occupancy rates. Scholarship allowances, generated by federal and state financial aid funds as well as internally generated discounts, have reduced tuition and fees revenue by \$42.7 million and room and board revenue by \$2.7 million.

Gifts, Grants and Contracts revenue increased \$4.9 million. This was partly due to increased federal and state student financial aid received, as well as utilization of research awards received in the current year as well as recent years. Nearly \$1.0 million was utilized for electronic field trips in 2005, while \$0.5 million was utilized for the Digital Middletown project, which brings high speed internet service to schools and others for educational purposes. A number of smaller grants, as well as other funding sources, contributed to the success of the Building Better Communities initiative, which brings Ball State University expertise to solve specific issues in communities throughout Indiana. Also, during 2005, the University utilized \$3.6 million of the \$20.1 million iCommunications grant from the Lilly Endowment that was received in 2002. This utilization, though less than previous years, accounted for one-fourth of nongovernmental grants and contracts revenue. The Lilly Endowment Grant currently has \$1.7 million remaining to be utilized early next year.



Operating Expenses

Operating expenses reduce net assets and comprise 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 \$6.4 million, which are in addition to \$42.7 million and \$2.7 million in scholarships and fee remissions netted against tuition and fees revenue and room and board revenues, respectively.



For 2005, other operating expenses are \$8.0 million higher, due primarily to increases in supplies expenditures, while salaries and benefits are \$6.6 million higher due to pay increases and increases in health care expenditures. Approximately 81 percent of the University's employees electing the health care benefit were members of the Preferred Provider Organization (PPO) Plan for fiscal year 2005. Despite the sizable discounts available from in-network providers, health care costs nevertheless increased. Due to higher costs for physicians, hospitals and prescription drugs, and increased usage by the University's employees and retirees, further increases are projected in 2006. This is due to the aging demographic profile of this population, technological advances in diagnostic techniques, expensive new

prescription drugs and advances in surgical procedures. These increases are occurring in spite of improved wellness benefits and the active efforts of the University to inform employees and retirees of ways to better manage their chronic medical conditions. According to published results of surveys of employers, insurers, actuaries and third party

administrators, conducted by reputable human resources consulting firms, costs are expected to continue to increase for the foreseeable future.

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, interest expense and investment income (interest and dividend income and realized and unrealized gains and losses).

For 2005, the state appropriations available for operations, totaling \$127.5 million, increased by \$3.7 million, or three percent over the previous year. Included in this total appropriation is a \$10.4 million monthly installment that was not received from the State of Indiana in 2005, but for which a receivable was recorded.

Short-term interest rates gradually increased throughout fiscal 2005, while long term rates did not. As a result, the University, which generally holds investments until maturity, received higher interest payments without suffering a significant decline in market value, which it ordinarily would in an environment of increasing rates. The University reported \$7.3 million in investment income for the year, as compared to \$2.8 million in the previous year.

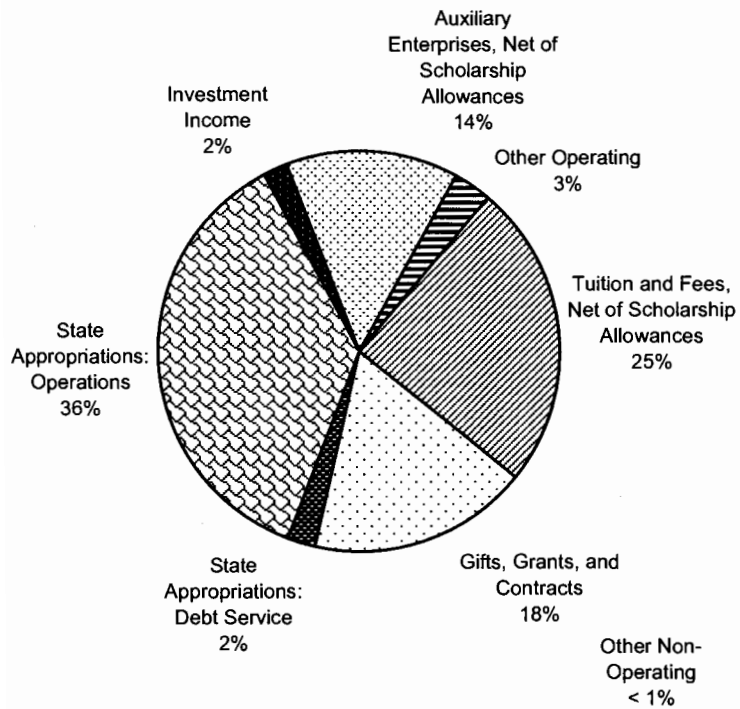
Other Revenues

Renewal and Replacement Appropriations			
2002	2003	2004	2005
\$1.9 million	\$0.0	\$0.7 million	\$0.0

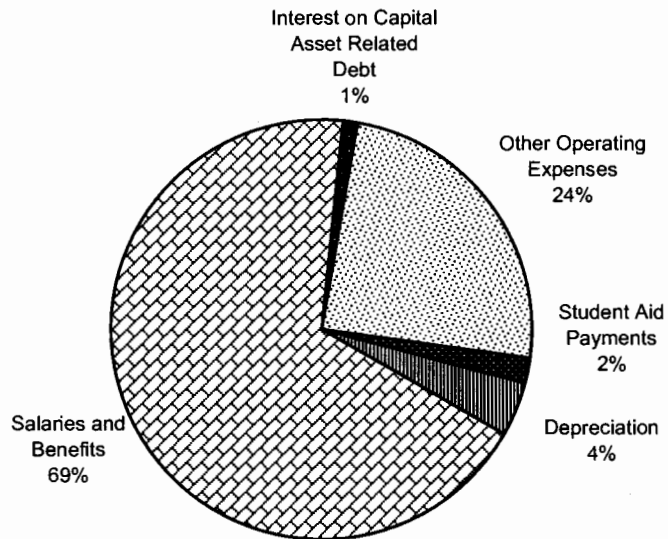
Other revenues increase net assets and consist of capital appropriations, gifts and grants, as well as items that are typically non-recurring, extraordinary, or unusual to the University.

Capital appropriations financed by the State of Indiana for renewal and replacement decreased from \$0.7 in the prior year to \$0.0 million for the current year. The \$0.7 million represents 12.5 percent of the formula used for renewal and replacement funding for the entire 2003-05 biennium, all of which was utilized in 2004, the first year of the biennium.

Total Revenues by Source



Total Expenses by Source



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, 2005

Cash and Equivalents Provided by / (Used In):	
Operating Activities	\$ (108,755,994)
Non-Capital Financing Activities	134,745,139
Capital and Related Financing Activities	(3,984,781)
Investing Activities	<u>(35,288,524)</u>
Net Decrease in Cash and Equivalents	\$ (13,284,160)
Cash and Equivalents – Beginning of Year	<u>66,772,569</u>
Cash and Equivalents – End of Year	\$ <u>53,488,409</u>

The major components of cash flows provided from operating activities are tuition and fees, grants and contracts 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 fee increases. Receipts for grants and contracts were slightly higher. The major components of cash flows used in operating activities are payments for employees (including benefits) and payments to suppliers. More cash was used for these activities than in the prior year due to pay increases and increases in health care costs.

Cash flows provided from non-capital financing activities primarily reflect state appropriations received of \$135.1 million.

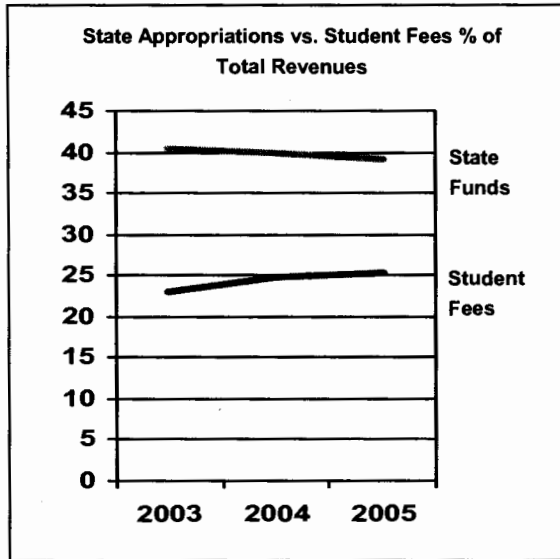
Cash flows from capital financing activities reflect a slight decrease in cash for the year. This was due to payments for capital assets funded from amounts received in prior years being partially offset by receipts from new bond issues for debt retirement and capital expenditures for future years, such as the bulk of the expenditures for the Communication Media Building.

Cash flows from investing activities, most of which consists of reinvesting short-term investments as they mature, resulted in a net decrease in cash due to investment purchases exceeding investment maturities. Because long-term interest rates were more attractive relative to short-term and cash equivalent rates, proceeds from maturing investments and bonded debt issues were reinvested long-term (up to five years). This was the primary reason for the overall decrease in cash and cash equivalents in 2005.

Economic Factors That Will Affect the Future

The economic health of the University is closely tied to that of the State of Indiana, in that the University relies on the State as the major source of funding for the future educational program-related needs of the University. In the foreseeable future from a financing standpoint, the University's success and, ultimately, its economic health will be driven by the ability to insure that resources are available to keep pace with enrollment increases; to replace retiring faculty and administrative personnel with talented new replacements to preserve and advance educational quality; to relieve existing salary compression in selected areas; to provide adequate resources to encourage growth in research and sponsored programs; to maintain, modernize and renew campus facilities and keep pace with technological advances; and to meet the challenge of controlling rapidly increasing health care costs. Managing these obligations has been accomplished historically in part through ongoing reallocations, reductions and the examination of operating practices, and this will continue. However, such repeated actions become more problematic as the University strives to improve educational

quality and operating effectiveness. Further elaboration of some of these major challenges is presented in greater detail below.



After four successive years of increases, the University's total enrollment for Fall Semester 2005 is expected to be virtually unchanged from Fall Semester 2004, with a decline in on-campus enrollment mostly offset by an increase in off-campus enrollment. The University expects a modest enrollment increase for Fall Semester 2006, and in subsequent years until a target level for on-campus enrollment of approximately 19,500 students is reached. To preserve the quality of the students' educational experience, the University must be adequately funded for these increases. If the funding does not come about as a result of increased state appropriations, in keeping with past funding practices, other options, including additional student charges, must be considered.

Over the next five to ten years, the University anticipates the need to spend substantial funds to upgrade and replace its existing major administrative software systems in order to achieve greater integration of necessary data

to better serve the various stakeholders. In most cases, this will also entail a significant investment in new hardware, as well as training technical and non-technical personnel on the new systems. This is in addition to the ongoing need to provide the most up-to-date instructional computing resources for students and faculty.

It is projected that a significant number of faculty members will retire in the next five to ten years at Ball State University with a similar experience expected on a national level. The result will be significant pressure to support competitive salary and benefit programs to enable the University to attract on the open market the best available personnel. Meeting this challenge is critical to preserving the quality of a Ball State University education.

The University's health care plan population includes retirees, who receive a health care benefit similar in cost and coverage to that of active employees. As of June 30, 2005, Ball State University's actuarial liability for this benefit is estimated to be \$157.8 million, while the trust fund established to assist in financing this liability has a market value of \$106.6 million. While this liability had previously been actuarially funded (prior to the recent shortfall in the investment markets and abnormal growth in health care costs), the University is committed to bringing these amounts back into balance in the future through a combination of investment earnings, contributions from health care premiums and changes expected to be brought about through government action. Working with its consulting actuaries, the University has a systematic plan in place to bring about this result, using the recently released Statement 45 of the Governmental Accounting Standards Board (GASB) as a guiding criteria. Based on current actuarial calculations developed for GASB Statement 45, the University expects to begin withdrawing amounts in fiscal year 2011 from the trust fund to fund current claims.

During fiscal year 2004, Congress passed legislation that, among other things, resulted in the federal government granting relief to employers who provide retiree prescription drug benefits, currently the fastest growing segment of health care. The University will begin to benefit from this during fiscal year 2006. On the other hand, because Medicare continues to be actuarially underfunded, the government can be expected to try to control its costs by continuing to restrict the amount of allowable reimbursement to providers. This could then result in health care providers continuing at greater levels to shift costs to private insurers such as Ball State University. Like all employers, the University is challenged by the need and desire to offer a quality health care program in a very fluid cost environment.

In summary, as the financial statements and the re-accreditation documents 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. 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.

Ball State University

Statement of Net Assets

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 53,488,409	\$ 66,772,569
Short Term Investments	19,362,398	15,034,878
Accrued Interest Receivable – Investments	1,708,624	1,485,389
Accounts Receivable, Net, and Unbilled Costs	17,675,192	24,804,396
Inventories	931,216	995,749
Deposit with Bond Trustee	6,856,454	6,943,033
Notes Receivable, Net	1,165,425	1,099,273
Prepaid Expenses	<u>890,154</u>	<u>1,017,022</u>
Total Current Assets	\$ <u>102,077,872</u>	\$ <u>118,152,309</u>
Noncurrent Assets:		
Endowment Investments	\$ 2,298,423	\$ 2,310,678
State appropriation receivable	10,755,874	-
Notes Receivable, Net	9,352,849	8,821,968
Other Long Term Investments	129,950,267	91,865,264
Capital Assets, Net	<u>402,985,745</u>	<u>398,459,220</u>
Total Noncurrent Assets	\$ <u>555,343,158</u>	\$ <u>501,457,130</u>
Total Assets	\$ <u>657,421,030</u>	\$ <u>619,609,439</u>
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 19,552,641	\$ 18,036,554
Deposits	4,790,414	4,818,216
Deferred Revenue	2,896,581	9,489,258
Long Term Liabilities – Current Portion	<u>4,877,243</u>	<u>4,790,120</u>
Total Current Liabilities	\$ <u>32,116,879</u>	\$ <u>37,134,148</u>
Noncurrent Liabilities:		
Liability for Compensated Absences	\$ 6,517,690	\$ 6,562,674
Long Term Liabilities	<u>94,040,943</u>	<u>74,775,675</u>
Total Noncurrent Liabilities	\$ <u>100,558,633</u>	\$ <u>81,338,349</u>
Total Liabilities	\$ <u>132,675,512</u>	\$ <u>118,472,497</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 325,281,186	\$ 321,622,072
Restricted for:		
Nonexpendable Scholarships	1,043,827	1,147,026
Expendable:		
Debt Service	1,461,969	3,713,984
Loans	10,832,520	10,497,548
Construction	3,024,473	6,354,559
External Grants	3,685,979	2,561,407
Unrestricted	<u>179,415,564</u>	<u>155,240,346</u>
Total Net Assets	\$ <u>524,745,518</u>	\$ <u>501,136,942</u>
Total Liabilities and Net Assets	\$ <u>657,421,030</u>	\$ <u>619,609,439</u>

**Ball State University
Foundation**

Statement of Financial Position
June 30, 2005 and 2004

	2005	2004
Assets:		
Cash	\$ 214,262	\$ 86,421
Interest and Dividends Receivable	248,939	324,947
Contributions Receivable (Net of Allowances: 2005 - \$732,879; 2004 - \$607,219)	11,136,232	7,791,538
Property Held for Sale	1,341,508	1,341,508
Beneficial Interest in Remainder Trusts	2,981,310	5,366,305
Note Receivable	2,747,259	3,500,940
Investments in Marketable Securities	146,824,871	125,515,444
Investments Held in Split-Interest Agreements	3,972,807	3,465,212
Bond Issue Costs and Other Assets	119,824	132,820
Cash Surrender Value of Life Insurance	788,159	752,742
Property and Equipment	644,994	322,462
Beneficial Interest in Perpetual Trusts	<u>1,922,478</u>	<u>1,858,103</u>
Total Assets	\$ <u>172,942,643</u>	\$ <u>150,458,442</u>
Liabilities:		
Accounts Payable	\$ 547,666	\$ 942,887
Grants Payable	1,341,508	1,341,508
Accrued Expenses	324,293	330,714
Annuity Obligations	1,051,406	985,684
Trust Obligations	1,386,630	2,007,791
Bonds Payable	<u>10,000,000</u>	<u>10,000,000</u>
Total Liabilities	\$ <u>14,651,503</u>	\$ <u>15,608,584</u>
Net Assets:		
Unrestricted	\$ 23,585,484	\$ 14,794,388
Temporarily Restricted	45,578,714	39,278,691
Permanently Restricted	<u>89,126,942</u>	<u>80,776,779</u>
Total Net Assets	\$ <u>158,291,140</u>	\$ <u>134,849,858</u>
Total Liabilities and Net Assets	\$ <u>172,942,643</u>	\$ <u>150,458,442</u>

See Note A in Notes to Financial Statements

Ball State University
Statement of Revenues, Expenses
and Changes in Net Assets
June 30, 2005 and 2004

	2005	2004
Operating Revenues:		
Student Tuition and Fees	\$ 129,471,264	\$ 122,692,011
Scholarship Allowances	<u>(42,731,669)</u>	<u>(40,048,029)</u>
Net Student Tuition and Fees	\$ 86,739,595	\$ 82,643,982
Federal Grants and Contracts	21,795,786	20,939,320
State Grants and Contracts	24,707,959	22,127,776
Other Governmental Grants and Contracts	3,009	61,693
Non-Governmental Grants and Contracts	16,852,176	15,345,126
Interest on Notes Receivable	196,266	195,197
Sales and Services of Educational Departments	9,625,730	9,767,850
Auxiliary Enterprises:		
Residential Life (Net of Scholarships and Allowances: 2005 - \$2,728,282; 2004 - \$2,481,407)	39,600,852	41,309,469
Other	8,922,522	8,490,937
Other Operating Revenues	<u>1,247,910</u>	<u>3,011,506</u>
Total Operating Revenues	\$ <u>209,691,805</u>	\$ <u>203,892,856</u>
Operating Expenses:		
Personnel Services	\$ 167,254,573	\$ 163,548,139
Benefits	57,221,551	54,278,119
Utilities	8,605,251	8,702,462
Repairs and Maintenance	5,203,412	4,876,867
Other Supplies and Expenses	66,600,827	59,382,586
Student Aid	6,353,859	5,808,747
Depreciation	<u>13,753,606</u>	<u>13,829,533</u>
Total Operating Expenses	\$ <u>324,993,079</u>	\$ <u>310,426,453</u>
Operating Income/(Loss)	\$ <u>(115,301,274)</u>	\$ <u>(106,533,597)</u>
Non-Operating Revenues/(Expenses):		
State Appropriations	\$ 135,301,519	\$ 131,848,290
Investment Income	7,334,976	2,757,184
Interest on Capital Asset Related Debt	(3,772,282)	(3,761,627)
Other Non-Operating Income	<u>45,637</u>	<u>325,350</u>
Net Non-Operating Revenues/(Expenses)	\$ <u>138,909,850</u>	\$ <u>131,169,197</u>
Income Before Other Revenues, Expenses, Gains or Losses	\$ 23,608,576	\$ 24,635,600
Capital Appropriation	<u>-</u>	<u>655,254</u>
Increase in Net Assets	\$ <u>23,608,576</u>	\$ <u>25,290,854</u>
Net Assets – Beginning of Year	\$ <u>501,136,942</u>	\$ <u>475,846,088</u>
Net Assets – End of Year	\$ <u>524,745,518</u>	\$ <u>501,136,942</u>

**Ball State University
Foundation**

Statement of Activities

Years Ended June 30, 2005 and 2004

	2005			2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:							
Contributions	\$ 1,042,777	\$ 15,170,770	\$ 3,344,305	\$ 1,213,953	\$ 8,397,992	\$ 21,793,868	\$ 31,405,813
Promotional Activities and Other Revenue	45,491	-	-	56,554	-	-	56,554
Investment Income	11,821,808	1,772,657	1,645,926	14,222,462	1,828,612	359,616	16,410,690
Change in Value of Split-Interest Agreements	23,886	212,006	660,904	52,455	76,782	248,406	377,643
Operating Support Fees	537,602	(152,836)	(384,766)	795,929	(184,682)	(611,247)	-
Net Assets Released from Restrictions	\$ 13,471,564	\$ 17,002,597	\$ 5,266,369	\$ 16,341,353	\$ 10,118,704	\$ 21,790,643	\$ 48,250,700
Total Revenues, Gains and Other Support	\$ 21,090,344	\$ 6,300,023	\$ 8,350,163	\$ 23,509,243	\$ 2,928,544	\$ 21,812,913	\$ 48,250,700
Expenses:							
University Capital Projects	\$ 43,425	-	-	\$ 375,000	-	-	\$ 375,000
University Programs	8,260,803	-	-	10,023,774	-	-	10,023,774
Management and General	1,754,816	-	-	1,457,194	-	-	1,457,194
Fund Raising	2,240,204	-	-	906,981	-	-	906,981
Total Expenses	\$ 12,299,248	\$ -	\$ -	\$ 12,762,949	\$ -	\$ -	\$ 12,762,949
Change in Net Assets	\$ 8,791,096	\$ 6,300,023	\$ 8,350,163	\$ 10,746,294	\$ 2,928,544	\$ 21,812,913	\$ 35,487,751
Net Assets, Beginning of Year	14,794,388	39,278,691	80,776,779	4,048,094	36,350,147	58,963,866	99,362,107
Net Assets, End of Year	\$ 23,585,484	\$ 45,578,714	\$ 89,126,942	\$ 14,794,388	\$ 39,278,691	\$ 80,776,779	\$ 134,849,858

See Note A in Notes to Financial Statements

Ball State University

Statement of Cash Flows

Year Ended June 30, 2005

Source (Uses) of Cash:

Operating Activities:

Tuition and Fees	\$ 86,027,138
Grants and Contracts	56,110,383
Payments to Suppliers	(70,847,824)
Payments for Utilities	(8,605,251)
Payments for Personnel Services	(166,435,032)
Payments for Benefits	(55,963,666)
Payments for Scholarships and Fellowships	(6,915,049)
Auxiliary Enterprise Charges:	
Room and Board	39,558,458
Other	9,363,073
Sales and Services of Educational Activities	9,759,155
Other Receipts/(Disbursements)	<u>(807,379)</u>

Net Cash Provided/(Used) by Operating Activities \$ (108,755,994)

Non-Capital Financing Activities:

State Appropriations	\$ 135,054,987
William D. Ford Direct Lending Receipts	50,890,616
William D. Ford Direct Lending Disbursements	(50,890,616)
PLUS Loans Receipts	28,417,388
PLUS Loans Disbursements	(28,417,388)
Other Operating Revenue	45,637
Agency Transactions	<u>(355,485)</u>

Net Cash Provided/(Used) by Non-Capital Financing Activities \$ 134,745,139

Capital Financing Activities:

Proceeds from Capital Debt	\$ 37,705,000
Unamortized Bond Premium	2,121,344
Purchases of Capital Assets	(19,919,980)
Principal Paid on Capital Debt	(20,405,120)
Interest Paid on Capital Debt	(3,572,604)
Deposits with Trustee	<u>86,579</u>

Net Cash Provided/(Used) by Capital Financing Activities \$ (3,984,781)

Investing Activity:

Proceeds from Sales and Maturities of Investments	\$ 782,070,270
Interest on Investments	7,111,745
Purchase of Investments	<u>(824,470,539)</u>

Net Cash Provided/(Used) by Investing Activities \$ (35,288,524)

Net Increase/(Decrease) in Cash \$ (13,284,160)

Cash – Beginning of the Year

\$ 66,772,569

Cash – End of the Year

53,488,409

Net Increase/(Decrease) in Cash \$ (13,284,160)

**Reconciliation of Net Operating Revenues/(Expenses) to
Net Cash Provided/(Used) by Operating Activities:**

Operating Income/(Loss)	\$ (115,301,274)
Adjustments to Reconcile Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:	
Depreciation Expense	13,753,606
Equipment Retired	1,639,849
Changes in Assets and Liabilities:	
Operating Receivables – Net	(3,380,139)
Inventories	64,533
Other Assets	126,869
Accounts Payable	1,247,576
Deferred Revenue	(6,592,677)
Deposits Held for Others	327,683
Compensated Absences	(44,987)
Loans to Students	<u>(597,033)</u>
Net Cash Provided/(Used) by Operating Activities	\$ <u>(108,755,994)</u>

**Ball State University
Foundation**

Statement of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Activities:		
Change in Net Assets	\$ 23,441,282	\$ 35,487,751
Items not Requiring/(Providing) Cash:		
Depreciation and Amortization	35,655	32,659
Loss on Disposal of Equipment	431	7,290
Bad Debt Expense	545,780	308,475
Net Unrealized (Gain)/Loss on Investments	(11,143,081)	(5,380,097)
Net (Gain)/Loss on Sales of Investments	(1,860,119)	(8,984,717)
Contributions of Marketable Equity Securities	-	(1,221,402)
Contributions Restricted for Long-Term Investment	(3,344,305)	(20,385,760)
Contributions of Split-Interest Agreements and Annuities	(604,184)	(2,087,009)
Contribution of Note Receivable	-	(4,000,000)
Net Change in Value of Split-Interest Agreements	1,926,145	922,718
Changes In:		
Contributions Receivable, Including Amortization of Discount on Pledges Receivable	(3,890,474)	5,836,135
Interest and Dividends Receivable and Other Assets	89,004	(22,137)
Note Receivable	753,681	499,060
Accounts Payable and Accrued Expenses	(401,642)	(36,043)
Grants Payable	-	1,341,508
Net Cash Provided by Operating Activities	\$ 5,548,173	\$ 2,318,431
Investing Activities:		
Purchase of Property and Equipment	\$ (358,618)	\$ (6,452)
Purchase of Property Held for Sale	-	(1,341,508)
Purchase of Investments	(172,511,946)	(134,287,031)
Sales and Maturities of Investments	164,141,344	112,464,265
Net Increase in Cash Surrender Value of Life Insurance	(35,417)	(78,310)
Net Cash Used in Investing Activities	\$ (8,764,637)	\$ (23,249,036)
Financing Activities:		
Proceeds from Contributions Restricted for Investment in Permanent Endowment	\$ 3,344,305	\$ 20,385,760
Net Increase/(Decrease) in Cash	\$ 127,841	\$ (544,845)
Cash – Beginning of the Year	86,421	631,266
Cash – End of the Year	\$ 214,262	\$ 86,421
Interest Paid	\$ 223,910	\$ 107,310

See Note A in Notes to Financial Statements

Ball State University
Notes to Financial Statements
June 30, 2005

Note A - Significant Accounting Policies

Reporting Entity

Ball State University is a public institution of higher education governed by a nine-member Board of Trustees in accordance with IC 20-12-57.5. The University is considered to be a component unit of the State of Indiana because 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.

Ball State 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; grants for operation of the Indiana Academy for Science, Mathematics and Humanities, as well as grants for other purposes; and payments to State retirement programs for University employees.

Financial Statements

The financial statements of Ball State University are prepared in accordance with the principles outlined in "Statement No. 35" of the Governmental Accounting Standards Board. Ball State 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 (Balance Sheet)
- 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, if applicable.

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 and grants are recorded generally 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 arising from the activities described in the *Ball State University Strategic Plan 2001 - 2006*, in sections "Description of the University" and "Mission," including tuition and fees, grants and contracts, sales and services of educational departments and auxiliary enterprises net revenues. Revenues from investing activities 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, or to the extent that they are funded by a portion of this revenue line. 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.

Ball State University conducts summer classes, which for billing purposes are considered either as part of the first five-week summer session, the second five-week summer session, or the 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 for first summer session and summer semester are due on or about the middle of May, while bills for the second summer session are due on or about the middle of June. By June 30, students have exhausted 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 market value. Investments with a maturity date of one year or less are considered to be short-term investments, with the exception of those which were purchased 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 allowance for uncollectible items. The reserves as of June 30, 2005 and June 30, 2004 were \$3,521,446 and \$3,663,027 respectively for accounts receivable. For notes receivable, the reserves were \$1,569,147 and \$1,648,125 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, improvements, infrastructure, buildings and building improvements, construction in progress and equipment with expected lives in excess of one year. Repair and replacement expenditures that do not extend the useful life of the asset, and expenditures for personal property of less than \$5,000 are expensed rather than capitalized. Buildings and building improvements and equipment are depreciated on a straight-line basis over their expected useful lives, which for buildings is 50 years, while equipment useful lives vary from three years to ten years. Land and improvements are not depreciated, except for a relatively small amount invested in infrastructure.

The art collection, housed primarily in the Ball State University Museum of Art, 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 Ball State 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.

Notes to 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. During the year ended June 30, 2005, the foundation distributed \$9,730,550 for both restricted and unrestricted purposes of the University. \$6,331,277 of that amount is reflected as revenue and expense in University reporting and the balance of \$3,399,273 is reflected as expense solely in the Foundation's reporting. Complete financial statements for the foundation can be requested from the foundation office at 2800 W. Bethel Ave., Muncie, IN 47306.

The foundation is a private nonprofit organization that reports under 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 financial reporting entity for these differences.

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. The maximum number of vacation days any employee can accumulate as of June 30 is 24, for which they would be paid upon termination. Employees can accumulate a maximum of 90 days of sick leave, two-thirds of which, or 60 days maximum, is payable upon retirement to qualifying employees. In order to qualify for this benefit, professional employees must have been hired prior to July 1, 1985 and be at least 50 years of age with at least 15 years of employment at Ball State University. Staff and service employees hired prior to July 1, 1999 who are at least 60 years of age with at least 10 years of employment at Ball State University are eligible for this benefit. All other staff and service employees must have at least 15 years of employment and be at least 50 years of age to be eligible.

Note C - Capital Assets

	Book Value July 1, 2004	Additions	Deductions	Book Value June 30, 2005
Land	\$ 10,499,896	\$ -	\$ -	\$ 10,499,896
Land Improvements	26,420,163	2,910,481	-	29,330,644
Infrastructure	14,397,837	-	-	14,397,837
Educational Buildings	276,899,197	4,853,131	-	281,752,328
Utility Buildings	15,051,341	87,460	-	15,138,801
Educational Equipment	44,947,173	4,230,680	2,112,301	47,065,552
Library Materials	41,212,091	2,209,731	1,323,929	42,097,893
Auxiliary Enterprise Buildings	155,287,889	4,796,350	-	160,084,239
Auxiliary Enterprise Equipment	10,590,427	832,147	75,279	11,347,295
Other Property	1,391,275	-	-	1,391,275
Total	<u>\$ 596,697,289</u>	<u>\$ 19,919,980</u>	<u>\$ 3,511,509</u>	<u>\$ 613,105,760</u>
Less Accumulated Depreciation:				
Infrastructure	\$ 2,654,502	\$ 287,962	\$ -	\$ 2,942,464
Educational Buildings	84,963,828	5,635,046	-	90,598,874
Utility Buildings	6,147,308	302,775	-	6,450,083
Educational Equipment	34,516,369	3,682,993	1,803,319	36,396,043
Auxiliary Enterprise Buildings	61,068,107	3,201,692	-	64,269,799
Auxiliary Enterprise Equipment	8,854,151	649,176	75,279	9,428,048
Other Property	33,804	900	-	34,704
Total	<u>\$ 198,238,069</u>	<u>\$ 13,760,544</u>	<u>\$ 1,878,598</u>	<u>\$ 210,120,015</u>
Capital Assets, Net	<u>\$ 398,459,220</u>	<u>\$ 6,159,436</u>	<u>\$ 1,632,911</u>	<u>\$ 402,985,745</u>

The University has an art collection that is primarily housed in the Ball State University Museum of Art. The collection consists of works that have been acquired over a large number of years and many were donated. Information on the fair market value at date of donation has not been accumulated. Due to the number of works and the time since donation, it is not possible to establish the cost basis of the works. The collection is not capitalized.

Depreciation expense is not recorded on the library collection. Due to space constraints, items that are not being utilized are retired to make room for more current materials. Based on this, collection items are deemed to retain their full value if they are still on hand.

Note D - Notes Payable

A loan agreement in the amount of \$1,500,000 dated June 1, 2004, was executed in order to refinance most of an earlier note payable in the amount of \$1,505,000. The proceeds from the original note provided interim financing for the construction and renovation of surface parking areas on campus. The loan is with Old National Bank, Muncie, Indiana and is due on June 1, 2006. Interest payments are due semi-annually and will be \$22,418 in the fiscal year ended June 30, 2006.

Note E - Bonds Payable

Parking System Revenue Bonds, Series 1989, were issued on August 8, 1989. The \$2,905,000 Current Interest Bonds included in the issue were dated July 1, 1989. They have all been retired. The \$740,942 of Capital Appreciation Bonds included in the issue were dated as of the issue date. Proceeds from the sale of the bonds were used to fund the expansion and renovation of surface parking on campus and to fund the costs of issuance.

Student Fee Bonds, Series H, in the amount of \$43,005,000, dated November 1, 1992, were issued on November 6, 1992. Proceeds from Series H were used solely to refund all of the outstanding Student Fee Bonds remaining in Series A, C and E.

Student Fee Bonds, Series I, in the amount of \$38,770,000, dated January 1, 1999, 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 J, in the amount of \$17,825,000, dated March 1, 2000, were issued on March 1, 2000. Proceeds from Series J were used to fund the renovation of the Fine Arts Building, the West Quadrangle Building, the Cooper Science Building and to fund the cost of issuance and a certain amount of capitalized interest. The remaining balance outstanding on this series was refunded with proceeds from Series L bonds described below.

Student Fee Bonds, Series K, in the amount of \$21,975,000, were dated and 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 dated and 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 dated and issued on December 15, 2004. Proceeds from Series M bonds are being used to fund construction and reconfiguration of the Communication Media Building and to fund the cost of issuance and a certain amount of capitalized interest.

Parking System Revenue Bonds, Series 2003, in the amount of \$6,495,000 were dated and issued on August 27, 2003. Proceeds from the bonds were used to partially fund construction of the McKinley Parking Structure.

Notes to Financial Statements

Long term bonds outstanding at June 30, 2005, were:

	Date of Issue	Original Issue	Retired 2004-2005	Outstanding June 30, 2005
Parking System Revenue Bonds of 1989:				
Current Interest, 5.90% to 6.75%	07/01/89	\$ 2,905,000	\$ -	\$ -
Capital Appreciation, 6.90%	07/01/89	740,942	120,120	492,270
Parking System Revenue Bonds of 2003:				
Current Interest, 2.00% to 5.00%	08/14/03	3,985,000	60,000	3,925,000
Term Bonds, 4.75%	08/14/03	2,510,000	-	2,510,000
Student Fee Bonds, Series H,				
Current Interest, 2.75% to 6.25%	11/01/92	43,005,000	1,235,000	2,235,000
Student Fee Bonds, Series I,				
Current Interest, 3.25% to 5.00%	01/01/99	38,770,000	2,140,000	26,560,000
Student Fee Bonds, Series K:				
Current Interest, 4.00% to 4.60%	01/03/02	5,700,000	640,000	4,445,000
Term Bonds, 5.25% to 5.75%	01/03/02	16,275,000	-	16,275,000
Student Fee Bonds, Series L:				
Current Interest, 3.00% to 5.50%	07/21/04	16,425,000	-	16,425,000
Student Fee Bonds, Series M:				
Current Interest, 3.00% to 5.00%	12/15/04	19,355,000	-	19,355,000
Term Bonds, 3.80%	12/15/04	1,925,000	-	1,925,000
		<u>\$ 151,595,942</u>	<u>\$ 4,195,120</u>	<u>\$ 94,147,270</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.

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

	Principal	Interest and Capital Appreciation
2006	\$ 4,877,242	\$ 4,542,009
2007	5,589,881	4,342,632
2008	4,858,003	4,134,924
2009	5,031,575	3,953,640
2010	5,235,569	3,755,096
2011-2015	29,050,000	13,705,591
2016-2020	20,655,000	7,563,375
2021-2025	17,245,000	2,302,735
2026	1,605,000	36,113
Total	<u>\$ 94,147,270</u>	<u>\$ 44,336,115</u>

Note F - Defeased Bonds

Escrow accounts have been established with First Merchants Bank, N.A., Muncie, Indiana to meet all future debt service requirements of certain series of defeased Building Facilities Fee Bonds. The funds held in the escrow accounts are invested in federal, state and local government securities.

Under the terms of the escrow agreements, the University is relieved of all liability for the defeased issues. The final maturity on the defeased Building Facilities Fee Bonds is July 1, 2020.

Proceeds of Student Fee Bonds, Series L, dated July 21, 2004, were used to refund outstanding Student Fee Bonds, Series J. The refunding resulted in an accounting loss of \$211,081 which was recognized during the 2004-05 fiscal year.

The University reduced its aggregate debt service payment over the next sixteen years by \$608,788 of which \$301,000 was realized in the 2004-05 fiscal year and \$258,000 will be realized in the 2005-06 fiscal year. There was an economic gain (difference between the present values of the old and new debt service payments) of \$574,664 on the refinancing activity. The entire gain on this transaction accrues to the State of Indiana in that it reduces the amount of fee replacement funds provided to the University by the State.

At June 30, 2005, the unpaid principal for the defeased Building Facilities Fee Bonds was \$26,111,361. The last of the previously defeased Housing and Dining Facilities Revenue Bonds were retired during the fiscal year ended June 30, 2005.

Note G - Investments

Investments held in the name of the University at June 30, 2005, consisted of the following:

	<u>Market</u>
U.S. Government Agency Securities	\$ 123,942,000
Certificates of Deposit	83,895,000
Commercial Paper	1,499,850
Equity Securities (Endowment Funds only)	<u>588,202</u>
Total	\$ <u>209,925,052</u>

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:

Obligations of the United States Government and of certain agencies of the United States Government.

Certificates of deposit issued by banks and savings banks incorporated under the laws of Indiana and in national banking associations having their principal banking offices in Indiana. At June 30, 2005, the above listed investments included certificates of deposit with Irwin Union Bank & Trust Co., Columbus, Indiana of \$35,650,000, with Mutual Federal Savings Bank, Muncie, Indiana of \$21,350,000 and with Union Federal Bank, Indianapolis, Indiana of \$10,620,000. All other non-governmental investments placed with a single entity represented less than five percent of total investments placed.

Commercial paper rated A1 (Standard & Poor's) or P1 (Moody's).

Repurchase or resale agreements involving obligations issued or fully insured or guaranteed by the United States or any United States government agency.

All investments are unrated except for the commercial paper which is rated both A1 (Standard & Poor's) and P1 (Moody's).

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, venture capital, 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 bank, or in a custodial account with a brokerage firm. Safekeeping receipts are held by the University. Repurchase agreements are collateralized with 105 percent par value. No more than 20 percent of the University's investments may be placed with a single financial institution and no more than \$5,000,000 may be placed with any single issuer of commercial paper.

Cash deposits of \$8,167,653 are insured by agencies of the federal government up to \$100,000; amounts in excess of \$100,000 are insured by the Indiana Public Depository Fund.

The equity securities held in the University Endowment Funds were all donated or are derived from donated securities.

Disclosures Related to Interest Rate Risk

Interest rate risk refers to the fact that changes in market interest rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The University's investment policy does not dictate a specific earnings rate and is maintained with two general terms: (1) the liquidity investment objective is to obtain the highest income while maintaining safety of principal to meet the operating needs of the University and (2) investment of remaining funds to obtain highest income levels while maintaining safety of the principal over longer periods of time with a wide variety of securities.

Information about the sensitivity of the fair values of the University's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the University's investments by maturity:

	Market Value	Less Than Six Months	Greater than or Equal to Six Months and Less Than or Equal to One Year	Greater than One and Less Than or Equal to Five Years	Greater Than Five Years
Investment by type:					
Certificates of Deposit	\$ 83,895,000	\$ 75,395,000	\$ 2,500,000	\$ 6,000,000	\$ -
Commercial Paper	1,499,850	1,499,850	-	-	-
Equity Securities (Endowment Funds Only)	588,202	-	-	-	588,202
Government Agencies	<u>123,942,000</u>	<u>3,509,750</u>	<u>-</u>	<u>120,432,250</u>	<u>-</u>
Total Investments	\$ <u>209,925,052</u>	\$ <u>80,404,600</u>	\$ <u>2,500,000</u>	\$ <u>126,432,250</u>	\$ <u>588,202</u>

Note H - Retirement Plans and Post Retirement Benefits

Retirement Plans

Public Employees' Retirement Fund

The Public Employees' Retirement Fund (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 benefits plan. State statutes (IC 5-10.2 and 5-10.3) give the University authority to contribute to the plan and govern 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 interest credited to the member's account. Ball State University has elected to make the contributions on behalf of the member. For the fiscal year ended June 30, 2005, there were 1,318 employees participating in PERF with an annual pay equal to \$42,440,166.

PERF 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 Public Employees' Retirement Fund, Harrison Building, 143 West Market Street, Indianapolis, IN 46204, or by calling (317) 233-4162.

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

Annual Required Contribution	\$ 1,529,351
Interest on Net Pension Obligation	(68,767)
Adjustment to Annual Required Contribution	<u>78,365</u>
Annual Pension Cost	\$ <u>1,538,949</u>
Contributions Made	\$ <u>2,329,214</u>
Net Pension Obligation, July 1, 2003	\$ (948,511)
Increase/(Decrease) in Net Pension Obligation	<u>(790,265)</u>
Net Pension Obligation, June 30, 2004	\$ <u>(1,738,776)</u>

Contribution Rates:

University	3.80%
Plan Members (paid by BSU)	3.00%
Actuarial Valuation Date	6/30/2004
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar Open
Remaining Amortization Period	30 years
Asset Valuation Method	4 year Smoothed Market

Three Year Trend Information

Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 2,032,121	99.00%	\$ 990,506
2003	\$ 2,171,831	98.00%	\$ (948,511)
2004	\$ 1,538,949	100.00%	\$ (1,738,776)

Schedule of Funding Progress

Actuarial				
Valuation Date	Value of Assets	Accrued Liability (AL)	Excess/ (Unfunded) AL	Funded Ratio
07/01/2002	\$ 46,340,808	\$ 47,734,075	\$ (1,393,267)	97.10%
07/01/2003	\$ 49,574,730	\$ 44,356,002	\$ 5,218,728	100.00%
07/01/2004	\$ 47,920,723	\$ 45,080,246	\$ 2,840,477	100.00%

Date	Covered Payroll	Excess/ (Unfunded) AL as a Percent of Covered Payroll
07/01/2002	\$ 40,040,077	-3.50%
07/01/2003	\$ 40,891,755	12.80%
07/01/2004	\$ 41,363,222	6.90%

Teachers' Retirement Fund

The Teachers' Retirement Fund (TRF) is a cost-sharing, multiple employer public 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. Ball State University has elected to make the contributions on behalf of the member. For the fiscal year ended June 30, 2005, there were 493 employees participating in TRF with annual pay equal to \$27,417,544. The University contributes at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82 percent of covered payroll. The University's contributions to the plan for the fiscal years ended

Notes to Financial Statements

June 30, 2005, 2004 and 2003, were \$2,692,398, \$2,691,779 and \$3,301,184, respectively. The University contributed 100 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 other 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 Teachers' Retirement Fund, 150 W. Market Street, Suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Alternate Pension

Faculty and professional personnel of the University have the option 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 Ball State University 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 the fiscal year ended June 30, 2005, the University contributed \$9,409,976 to this plan for 1,270 participating employees with annual payroll totaling \$76,690,921.

Early Retirement Program

Eligible employees may participate in an early retirement program. The plan provides a severance payment equivalent to 15 percent of the 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 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, 2005, \$295,200 is recorded as a liability representing payments to be made in 2005 and 2006 to employees who retired under the program by June 30, 2005.

Post Retirement Benefits

In addition to providing pension benefits, the University, as authorized by the Ball State University 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 50; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2005, approximately 1,641 participants were eligible and were receiving one or both of these benefits.

Retiree Health Care

The University recognizes the cost of providing health care benefits by expensing its share of premiums assessed. Premium rates are determined by analyzing the costs of care, administration, changes in required insurance reserves and planned contributions toward the costs of future retiree health care. Premiums assessed during the year ended June 30, 2005, including the employees' and retirees' (25 percent) and University's (75 percent) share, totaled \$35,854,356. These premiums are credited to the Health Care Auxiliary Fund; expenditures, transfers, and required reserve balances are recorded there as well. The University's share of retiree health care premiums totaled \$6,942,496 for the year ended June 30, 2005.

The trust fund established for the sole purpose of funding future retiree health care had the following activity for the year ended June 30, 2005:

Market Value at July 1, 2004	\$	96,012,411
Transfer from Health Care Auxiliary		1,605,000
Reinvested Net Earnings		1,755,064
Unrealized Gain (Loss)		<u>7,201,437</u>
Fund Balance at June 30, 2005	\$	<u>106,573,912</u>

These funds cannot under any circumstances revert to the University. The actuarial evaluation completed in 2004 projects the accrued liability for future retiree health care for current retired and active employees to be approximately \$157.8 million as of June 30, 2005. These amounts are projected to increase between five percent and seven percent per year for the foreseeable future.

In 2004, the Governmental Accounting Standards Board released Statement no. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement specifies how liabilities such as Ball State's retiree health care liability are to be reported in the future, as well as the expenses incurred as a result of the growth of the liability vs. funding of the liability. The statement permits a number of approaches and allows spreading the unfunded liability over thirty years. In consultation with outside professional actuaries, Ball State University will be using the Projected Unit Credit Level Per Cent of Payroll Method. This method takes into account the expected growth in payroll in determining how to fund the liability over thirty years.

It is the University's plan to contribute to the VEBA the amount calculated for the fiscal year under this method.

Retiree Life Insurance

Eligible personnel retiring after specified years of service are eligible to continue group life insurance at reduced amounts. The University has established a life insurance continuance fund with the insurance carrier in order to provide for the payment of retiree death claims. The actuarial evaluation completed in 2004 projects the accrued liability for all employees, active and retired, to be approximately \$19.4 million as of June 30, 2004. Following is a summary of the life insurance continuance fund for the year ended June 30, 2005.

Fund Balance at July 1, 2004	\$	18,849,500
Transfer from Life Insurance Auxiliary		1,000,000
Net Earnings on Investments		549,005
Unrealized Gain (Loss)		1,297,215
Less Death Claims and Related Charges		<u>596,994</u>
Fund Balance at June 30, 2005	\$	<u>21,098,726</u>

These funds cannot under any circumstances revert to the University.

Note I - Included Entities

Ball State University operates Burris 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 - Contingent Liability

The University is guarantor on two loans and the status of each loan agreement is listed as follows:

Phi Delta Theta Fraternity, Indiana Kappa chapter in Muncie, Indiana – loan agreement provided funding for the construction of a fraternity house. Ball State University is guarantor of the loan that was issued in January, 1988, for \$284,000. Fraternity is current on scheduled debt service requirements.

Sigma Phi Epsilon Fraternity, Indiana Gamma chapter in Muncie, Indiana – loan agreement provided funding for the remodeling of fraternity house. Ball State University is guarantor for one-half of the loan that was issued August 1991, for \$285,000. Fraternity is current on scheduled debt service requirements.

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, as well as property damage to its auto fleet. 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 a percentage, based on past experience, of the following year's estimated claims. This estimated liability was \$3.355 million at June 30, 2005. Claims activity for the year was as follows:

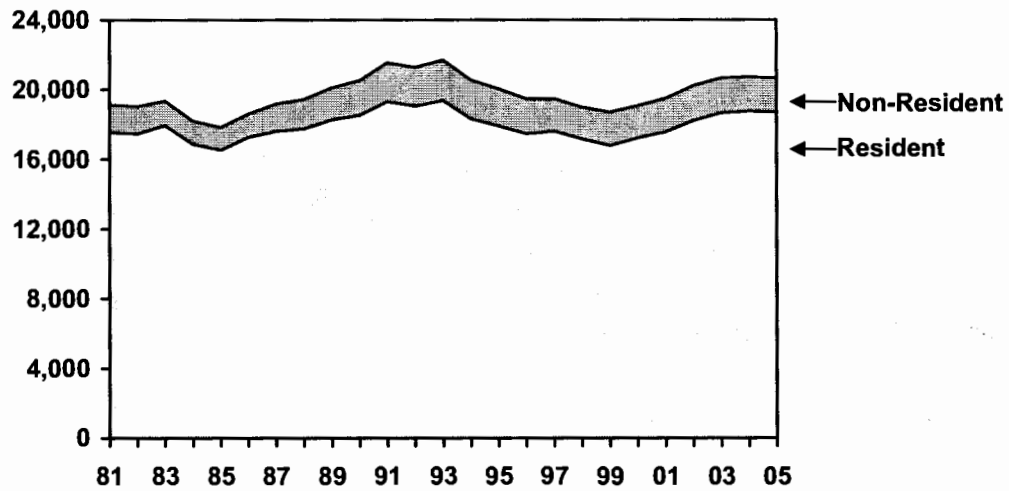
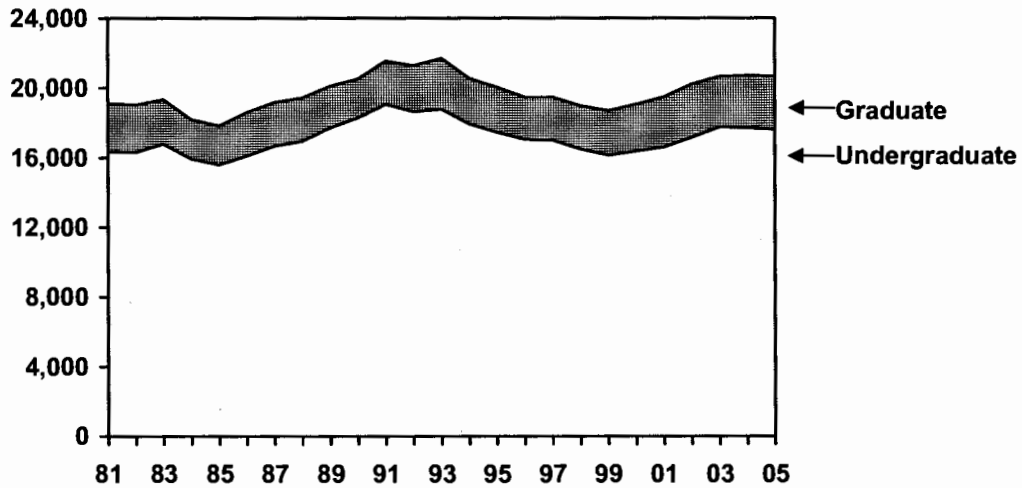
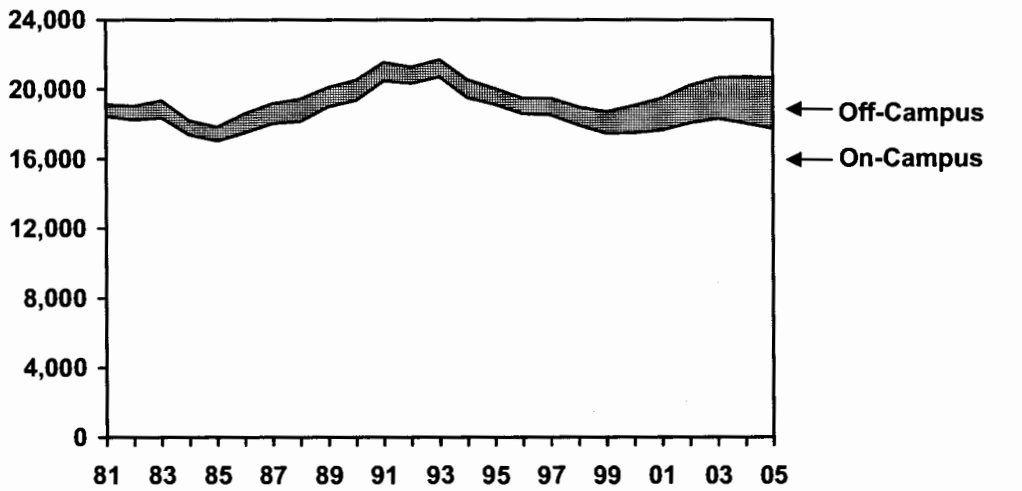
Unpaid health care claims at July 1, 2004	\$ 3,077,000
Claims incurred	34,259,739
Claims paid	<u>33,981,739</u>
Unpaid health care claims at June 30, 2005	\$ <u>3,355,000</u>

Supplemental Information

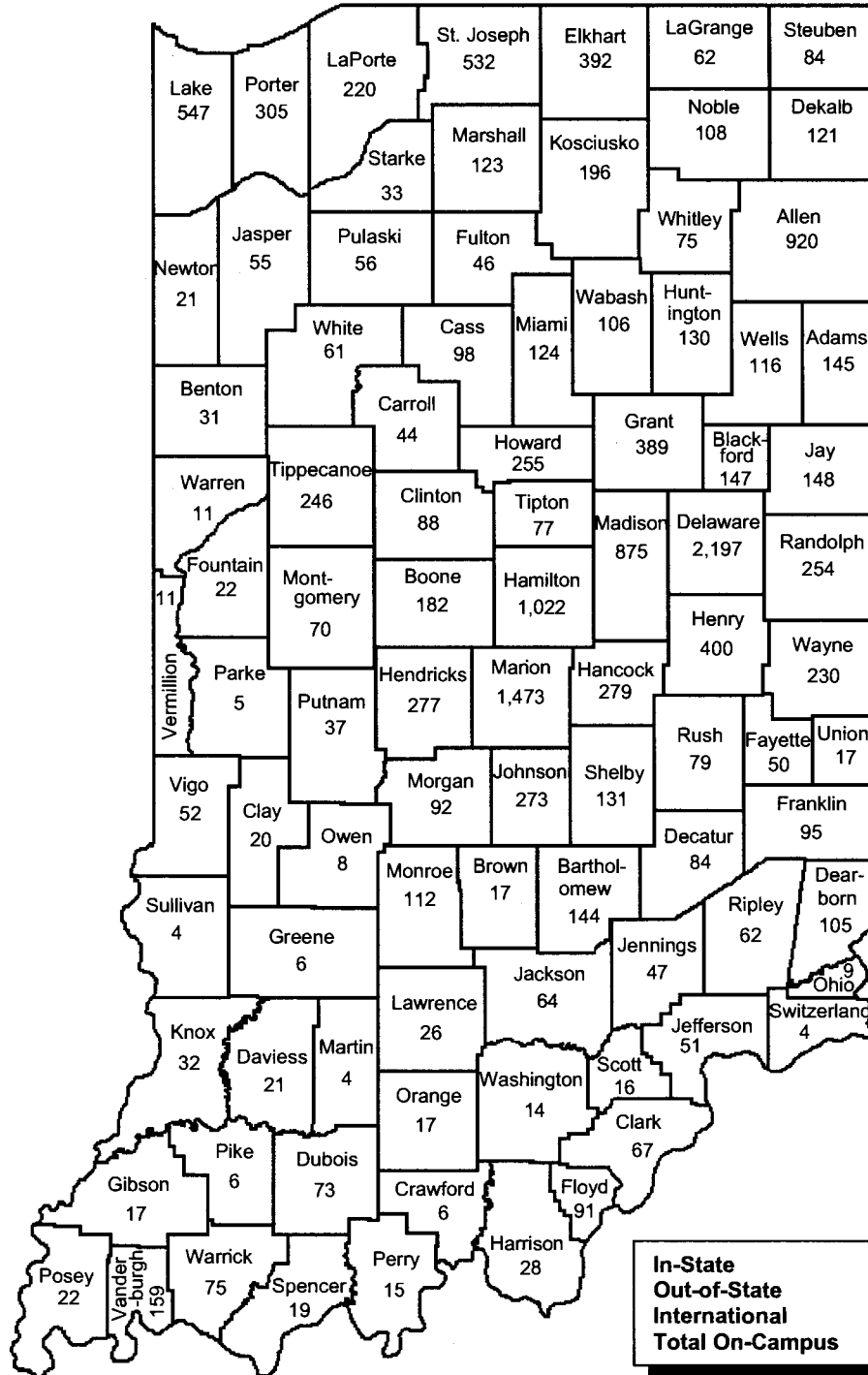


The following supplemental information has not been subjected to the auditing procedures applied to the basic financial statements and accordingly, the State Board of Accounts expresses no opinion thereon.

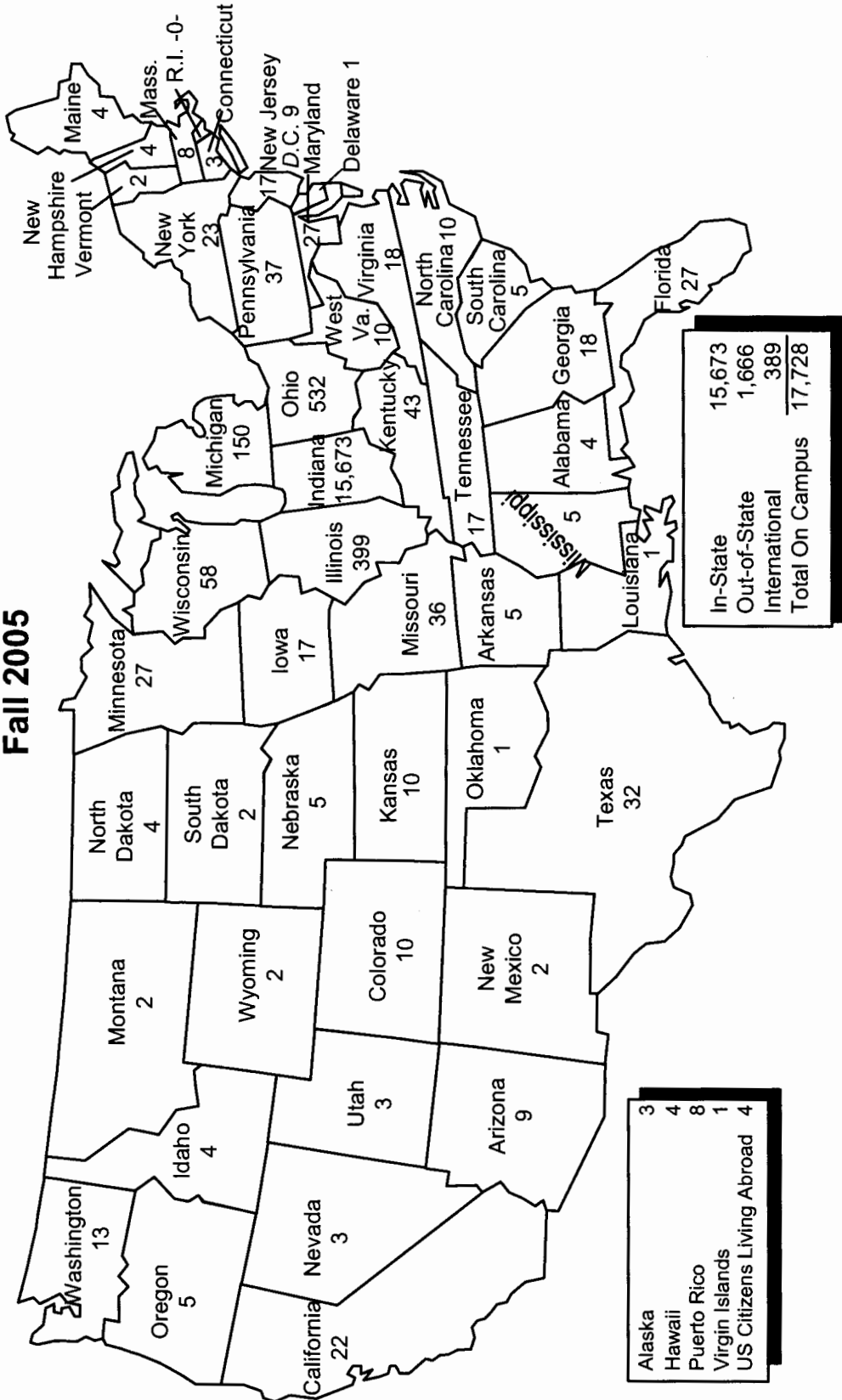
Student Enrollment Fall Headcount 1981-2005



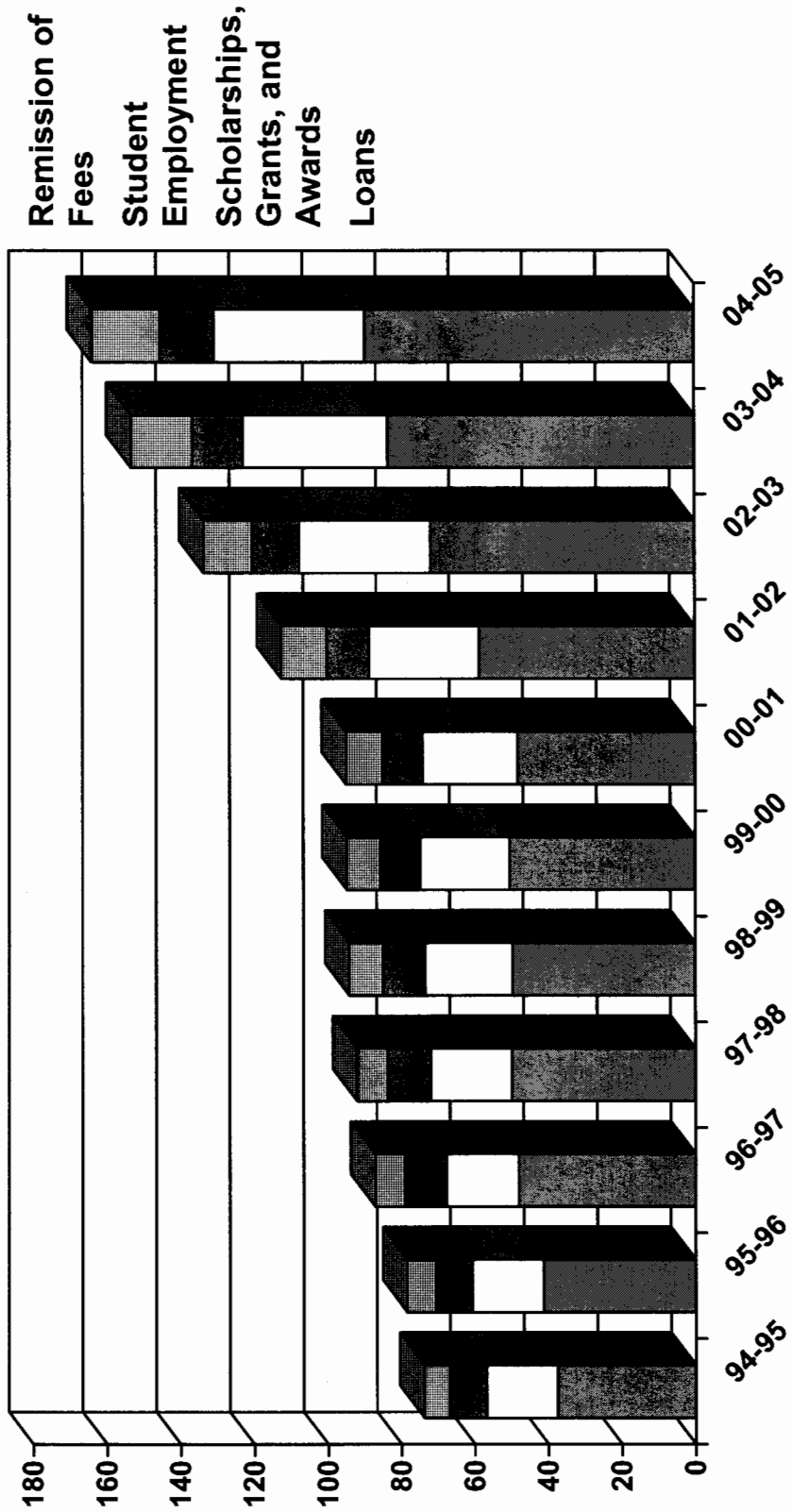
Campus Enrollment by County Fall 2005



Campus Enrollment by State Fall 2005



**Student Financial Assistance
1994-95 through 2004-05
(in Millions of Dollars)**



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

Revenue Bonds—Parking Facilities
Year Ended June 30, 2005

June 30	Principal	Interest	Total	Unliquidated Balance
2005				\$ 6,927,271
2006	\$ 172,243	\$ 509,631	\$ 681,874	6,755,028
2007	164,881	515,794	680,675	6,590,147
2008	163,003	521,260	684,263	6,427,144
2009	156,575	525,900	682,475	6,270,569
2010	150,569	529,956	680,525	6,120,000
2011	290,000	277,300	567,300	5,830,000
2012	305,000	262,425	567,425	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	184,362	569,362	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	86,212	566,212	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	13,062	563,062	-
2026	-	-	-	-
Total	\$ 6,927,271	\$ 4,977,179	\$ 11,904,450	

Student Fee Bonds
Year Ended June 30, 2005

June 30	Principal	Interest	Total	Unliquidated Balance
2005				\$ 87,220,000
2006	\$ 4,705,000	\$ 4,032,378	\$ 8,737,378	82,515,000
2007	5,425,000	3,826,838	9,251,838	77,090,000
2008	4,695,000	3,613,664	8,308,664	72,395,000
2009	4,875,000	3,427,740	8,302,740	67,520,000
2010	5,085,000	3,225,140	8,310,140	62,435,000
2011	5,295,000	3,006,702	8,301,702	57,140,000
2012	5,535,000	2,768,795	8,303,795	51,605,000
2013	5,790,000	2,503,561	8,293,561	45,815,000
2014	5,660,000	2,227,794	7,887,794	40,155,000
2015	5,165,000	1,962,889	7,127,889	34,990,000
2016	4,040,000	1,734,158	5,774,158	30,950,000
2017	3,365,000	1,542,114	4,907,114	27,585,000
2018	3,545,000	1,354,357	4,899,357	24,040,000
2019	3,745,000	1,156,238	4,901,238	20,295,000

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

Student Fee Bonds
Year Ended June 30, 2005

June 30	Principal	Interest	Total	Unliquidated Balance
2020	\$ 3,955,000	\$ 946,945	\$ 4,901,945	\$ 16,340,000
2021	4,180,000	725,795	4,905,795	12,160,000
2022	2,855,000	538,851	3,393,851	9,305,000
2023	3,005,000	388,401	3,393,401	6,300,000
2024	3,165,000	229,988	3,394,988	3,135,000
2025	1,530,000	110,475	1,640,475	1,605,000
2026	1,605,000	36,113	1,641,113	-
Total	\$ <u>87,220,000</u>	\$ <u>39,358,936</u>	\$ <u>126,578,936</u>	

Total Revenue and Student Fee Bonds
Year Ended June 30, 2005

June 30	Principal	Interest	Total	Unliquidated Balance
2005				\$ 94,147,271
2006	\$ 4,877,243	\$ 4,542,009	\$ 9,419,252	89,270,028
2007	5,589,881	4,342,632	9,932,513	83,680,147
2008	4,858,003	4,134,924	8,992,927	78,822,144
2009	5,031,575	3,953,640	8,985,215	73,790,569
2010	5,235,569	3,755,096	8,990,665	68,555,000
2011	5,585,000	3,284,002	8,869,002	62,970,000
2012	5,840,000	3,031,220	8,871,220	57,130,000
2013	6,110,000	2,750,361	8,860,361	51,020,000
2014	6,000,000	2,459,794	8,459,794	45,020,000
2015	5,515,000	2,180,214	7,695,214	39,505,000
2016	4,405,000	1,935,396	6,340,396	35,100,000
2017	3,750,000	1,726,476	5,476,476	31,350,000
2018	3,945,000	1,521,057	5,466,057	27,405,000
2019	4,165,000	1,304,488	5,469,488	23,240,000
2020	4,390,000	1,075,958	5,465,958	18,850,000
2021	4,635,000	834,214	5,469,214	14,215,000
2022	3,335,000	625,063	3,960,063	10,880,000
2023	3,505,000	451,339	3,956,339	7,375,000
2024	3,690,000	268,582	3,958,582	3,685,000
2025	2,080,000	123,537	2,203,537	1,605,000
2026	1,605,000	36,113	1,641,113	-
Total	\$ <u>94,147,271</u>	\$ <u>44,336,115</u>	\$ <u>138,483,386</u>	