

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007

RETIREE HEALTH AND LIFE INSURANCE PLANS



B A L L S T A T E
U N I V E R S I T Y

MUNCIE, INDIANA

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To

The President and Board of Trustees

Ball State University

This financial report presents

the financial position of the

Ball State University

Retiree Health & Life Insurance Plans

at June 30, 2007,

and the results of activities for

the year then ended.

Thomas J. Kinghorn
Vice President for Business Affairs
and Treasurer

July 18, 2008

Ball State University

2006-2007

Frank A. Bracken, Indianapolis, IN

Thomas L. DeWeese, Muncie, IN

Marianne Glick, Indianapolis, IN

Frank Hancock, Indianapolis, IN

Richard Hall, Carmel, IN
(appointed January 24, 2007)

Hollis E. Hughes Jr., South Bend, IN

Richard L. Moake, Ft. Wayne, IN
(completed term January 23, 2007)

Barbara Phillips, Carmel, IN

Gregory S. Fehribach, Indianapolis, IN

Danielle M. Frazier, New Palestine, IN
(Completed term July 6, 2007)

Kellie Conrad, Indianapolis, IN
(appointed July 9, 2007)

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Frank A. Bracken	Vice President
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Gregory S. Fehribach	(elected March 18, 2007) Assistant Secretary
Richard L. Moake ...	(completed term January 23, 2007) Assistant Secretary
Thomas J. Kinghorn	Treasurer

University President

Jo Ann M. Gora

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Independent Auditor's Report

The Board of Trustees of
Ball State University
Muncie, Indiana

We have audited the accompanying statements of plan net assets of the Retiree Health and Life Insurance Plans of Ball State University (the Plans) as of June 30, 2007, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2007, and the changes in its plan net assets for the year 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 a report dated July 15, 2008, on our consideration of the Plans' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Indianapolis, Indiana
July 15, 2008

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Ball State University
Retiree Health and Life Insurance Plans
Management's Discussion and Analysis
June 30, 2007

Introduction and Overview

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education located in Muncie, Indiana. As of the beginning of the 2006-2007 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,771 full-time and 327 part-time personnel.

Full-time regular employees of the University are eligible to receive a variety of employee benefits, including vacation, sick leave, short and long term disability insurance, health, life, and accidental death and dismemberment insurance, pension benefits, and fee waivers for employees, spouses and dependants. For the 2007 fiscal year, the University recorded benefits of \$59.7 million, plus a \$16.0 million estimated value for vacation and sick leave benefits whose usage would be included in payroll, for a total of \$75.7 million. The \$59.7 million includes \$24.4 million in health insurance for active employees, which includes \$1.4 million contributed to the Voluntary Employees Beneficiary Association (VEBA) Trust established to help fund their future retiree health benefits, as well as \$16.7 million in pension contributions, \$11.4 million of employer matching payments to Social Security and Medicare, and \$5.2 million in health insurance for current retirees. The University pays 100.0 percent of the required contributions to pension plans and 75.0 percent of the premiums for the various insurance plans. In addition, employees are provided the opportunity to set aside additional amounts for retirement through deductions from their paychecks before taxes. These amounts are then deposited into the 403(b) and/or 457(b) voluntary retirement plans that the University has established for this purpose.

In addition to providing pension benefits to all regular full-time employees, the University, like many other public and private employers, also provides health and life insurance benefits to employees who retire from the University after accruing the required years of service (15 years at age 50; 10 years at age 60 for those hired before September 1, 1999). As of June 30, 2007, 1,320 retired employees were covered by retiree life insurance, while 1,867 retired employees, spouses and surviving spouses were covered by retiree health insurance. In addition, 861 active employees had fulfilled the age and service requirements for these benefits as of that date. These retiree benefits have been part of the University's benefit programs since 1949 (life insurance) and 1952 (health insurance). As this report will show, the overall financial strength of these programs is excellent and is a strong indicator of continued coverage for the foreseeable future. This is due in large part to the establishment of the Life Insurance Continuance Fund (LICF) and the VEBA Trust to help fund future retiree insurance claims.

The VEBA Trust, the larger of the two funds, was established to finance the cost of retiree health care over the working life as well as the retired portion of an employee's life. When the VEBA Trust balance equals the actuarial liability for retiree health care, it will cover up to 75.0 percent of the total cost of retiree health care, with the remaining 25.0 percent of the cost continuing to be paid 25.0 percent by the retiree and 75.0 percent by the University. Since the liability, as calculated under GASB 43 rules, is now funded 86.6 percent, the VEBA Trust is already beginning to defray a portion of the retiree premium. Because of this funding level, premiums are lower than they would be otherwise.

Ball State University is not unusual in offering retiree health benefits. In Fall, 2004, TIAA-CREF surveyed colleges and universities and reported that 75.0 percent offered the benefit, and planned to continue the benefit for at least the next five years. More recently, a Kaiser Family Foundation survey in 2007 indicated that 98.0 percent of state and local governments surveyed offered retiree health care benefits to early retirees, and 81.0 percent offered these benefits to Medicare-eligible retirees.

Retiree health insurance provided by an employer is a significant benefit for retirees. While the federal government provides the major health coverage for retirees age 65 and above, there are still significant out-of-pocket costs not paid by Medicare, such as deductibles, co-pays, dental expenses, and prescription drugs (even with the addition of Medicare Part

D drug coverage). In 2004, Mercer stated in a report entitled "Retiree Health Care: Today and Tomorrow," that "a fully subsidized employer-sponsored retiree health care program is worth about 6.8 percent of pay contributed to a savings program over a career." Periodically, the news media reports the results of various studies by, for example, Fidelity Investments and the Employee Benefits Research Institute, which attempt to estimate the amount of savings at retirement age needed for health care costs, over and above that deemed necessary for maintenance of a current standard of living. These amounts, depending upon the assumptions used, are always expressed in hundreds of thousands of dollars, which is not surprising considering the number of health issues typically encountered by senior citizens. This is important to consider because the broad social implications of having an increasing population demographic unprepared to finance these obligations must be addressed by leadership in all sectors.

For the year ended June 30, 2007, the cost to Ball State University of health care for all current retirees, spouses, and surviving spouses was as follows:

Insurance Claims	\$ 8,304,650
Administration	188,521
	Total \$ <u>8,493,171</u>
Less:	
Retiree Premiums	\$ 2,436,737
Medicare Retiree Drug Subsidy	836,322
Net Cost of Benefit to University	\$ <u><u>5,220,112</u></u>

In addition, the University's health care plan contributed \$1.4 million to the VEBA Trust. While there are other ways to calculate the cost, including the Annual Required Contribution calculated by the actuaries and discussed later in this document, these are the actual costs recorded in the financial records of the University.

For this period, retiree health care as calculated above amounted to 6.9 percent of total estimated benefits and the contribution to the VEBA amounted to 1.8 percent, while pension contributions made by the University amounted to 22.0 percent, and the employer portion of Social Security and Medicare amounted to 15.1 percent. Taken together, 45.8 percent of total estimated benefits were for retirement purposes. Retiree life insurance, since it is totally paid from the LICF, was not reflected in the University's benefit expense.

Funding Strategy

Since the 1970s, Ball State University has recognized that retiree health and life insurance, like pensions, are promises and obligations to employees and retirees that need to be recognized financially. In fiscal year 1979-1980, the Ball State University Board of Trustees established the LICF for the purpose of funding retiree life insurance benefits through contributions and investment. In 1985, a reserve for retiree health care was established, and in 1988, the balance was transferred to the VEBA Trust established for the purpose of funding future retiree health care. In fiscal year 1992, the first liability projection by consulting actuaries from Mercer was completed. In fiscal year 1996, following an extensive study by Hewitt Investment Group, a leading consultant providing investment advice for clients with predominantly pension assets totaling over \$31.0 billion, the Board of Trustees approved a policy for the investment of the LICF and the VEBA Trust. Following this action, Hewitt was appointed as the investment consultant for these plans, meeting with the University at least quarterly to review investment results, evaluate and replace managers when necessary, and recommend further refinements to the policy.

During this time, contributions were made to the VEBA Trust from the University's self-insured health care plan, other benefits accounts, and, on occasion, the LICF. In 2004, the Governmental Accounting Standards Board issued Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which took effect for Ball State University during fiscal year 2006-2007, and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which takes effect for Ball State University during fiscal year 2007-2008. The University's funding methodology is based on the calculation of the annual cost, or Annual Required Contribution (ARC), as defined in these statements. In addition, funds available over and above the calculated contribution required are

contributed to the VEBA Trust in order to bring the funding status closer to the calculated actuarial liability. As of June 30, 2007, the VEBA Trust has received \$55.9 million in contributions from the University's health care plan, \$9.4 million transferred from the LICF, and has recorded \$87.4 million in realized and unrealized investment gains. \$4.0 million has been utilized to date for payment of retiree health claims.

The most recent actuarial projection of the retiree health care liability, when compared to the VEBA Trust established to fund this liability, revealed that the liability is now 86.6 percent funded under GASB rules. As a result, the ARC, as calculated by the actuaries, is less than the health insurance claims paid by the University, meaning that the VEBA Trust can begin to help fund this cost. As a result of this and the Medicare Retiree Drug Subsidy, premiums to be paid by Ball State University retirees were reduced by 20.0 percent for the fiscal year beginning July 1, 2008, while the premiums to be paid by active employees and the University were also lower than they would have been if an additional contribution to the VEBA had been included in the calculation. In other words, the well-funded VEBA Trust is resulting in lower premiums for active employees, retirees and spouses, and the University.

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

Using this Report

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

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

Financial Highlights

The financial position of the Retiree Health and Life Insurance Plans improved during the fiscal year, due primarily to investment returns of 18.0 percent for the total portfolio of the two plans. This return compared favorably to the 16.9 percent median return of the "Hewitt Composite Funds Universe," which consists of 101 pension plans, five endowments, 11 foundations and five not-for-profit institutional asset pools with assets totaling \$31.3 billion. Pension plans represent 77.0 percent of the assets of this universe. When compared to the NACUBO (National Association of College and University Business Officers) Endowment Study for the same time period, the NACUBO average for endowments of \$50.0 million to \$100.0 million was 16.7 percent and 18.0 percent for endowments of \$100.0 million to \$500.0 million.

While the one-year results were gratifying, it should be noted that the investment policy for the VEBA and the LICF focuses on a five-year horizon, with the expectation that the annualized total return will exceed a customized index made up of the various sector indexes for the various sectors in the asset allocation policy, as well as rank in the top 50.0 percent of a total pension fund universe. Over the past five years, the combined portfolio returned 12.4 percent, vs. 11.4 percent for the customized index. This placed the portfolio in the top 11.0 percent of Hewitt's predominantly pension universe. During that same time period, endowments of \$50.0 million to \$100.0 million returned 10.8 percent, and endowments of \$100.0 million to \$500.0 million returned 11.5 percent.

The improvement in overall financial health was even more dramatic for the actuarial liability calculation. The actuarial estimate as of July 1, 2007, calculated with the inclusion of the Medicare Retiree Drug Subsidy, as it had been in the past, was \$146.9 million for retiree health care and \$165.9 million for both programs. GASB Statement No. 43 does not permit the inclusion of the Medicare Retiree Drug Subsidy that the Retiree Health Care Plan receives, even though the Financial

Accounting Standards Board (FASB), whose statements apply to non-governmental plans, permits the inclusion of this subsidy. The actuaries, therefore, were requested to perform the calculation under both rules.

When converted to the GASB calculation, the retiree health care liability becomes \$171.9 million, while the combined liability becomes \$190.9 million. As a result, retiree health care is 86.6 percent funded, while the total liability for both programs is 91.2 percent funded. However, when the value of the Medicare Retiree Drug Subsidy is taken into account, both the retiree health care and the total liability for both programs are fully funded.

The actuarial calculation represents a decrease of \$33.7 million when compared to the estimate for fiscal year 2007 using the previous actuarial estimate. This improvement was due to actual costs coming in below predicted trends for pre-Medicare medical claims, prescription drug claims, dental claims and pre-Medicare administrative costs. The large reduction in pre-Medicare medical claims below predicted trends was due primarily to significant movement of these retirees from the Traditional Health Care option to the various Preferred Provider Organization (PPO) options, which resulted in lower costs for both the University and the retirees.

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

The Statements of Net Assets and the Statements of Changes in Net Assets report in summary fashion the financial position of the individual plans and the total of the two plans, as well as the detail of their financial activities, focusing on the net assets of the plans. These statements include all assets, liabilities, contributions, investment income, and expenses, using the accrual basis of accounting. This is the first year of implementation for GASB No. 43; therefore, audited prior year information is not available for comparison purposes. However, in future years, when prior year information is available, a comparative analysis will be presented.

The following is a summary of the major components of net assets at June 30, 2007.

<u>Net Assets</u>			
June 30, 2007			
	Retiree Health Insurance	Retiree Life Insurance	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and Short Term Investments	\$ 5,560,261	\$ 185,011	\$ 5,745,272
Accounts Receivable	3,408,912	348,908	3,757,820
Investments	<u>142,717,721</u>	<u>25,317,740</u>	<u>168,035,461</u>
Total Assets	\$ <u>151,686,894</u>	\$ <u>25,851,659</u>	\$ <u>177,538,553</u>
 Liabilities			
	<u>\$ 718,365</u>	<u>\$ 380,844</u>	<u>\$ 1,099,209</u>
 Net Assets:			
Trust	\$ 148,827,822	\$ 25,502,751	\$ 174,330,573
Other	<u>2,140,707</u>	<u>(31,936)</u>	<u>2,108,771</u>
Total Net Assets	\$ <u>150,968,529</u>	\$ <u>25,470,815</u>	\$ <u>176,439,344</u>

Cash and short term investments consists of cash and fixed income investments maturing within one year and reported on the investment manager and custodial reports.

Accounts receivable consists primarily of accrued interest and dividends and amounts received by Ball State University but not yet transferred to the retiree plans.

Investments include domestic fixed income, domestic large and small capitalization equities, international equities, and a private closed-end Real Estate Investment Trust. The amounts shown are at fair value.

Liabilities are primarily benefits payable at year end.

Net assets – trust represent the balances at year end in the VEBA Trust and the LICF.

Net assets – other reflect activity taking place outside the VEBA Trust and the LICF. For Health Care, it reflects the difference between the receivables from Ball State University and the retiree contributions versus the benefits payable and other liabilities. For Life Insurance, since benefits payable exceed the receivables, the balance is negative. However, the life insurance claims will be paid from LICF assets.

The following is a summary of the contributions, investment income, and deductions resulting in the changes in net assets for the year ended June 30, 2007.

<u>Change in Net Assets</u>			
Year Ended June 30, 2007			
	Retiree Health Insurance	Retiree Life Insurance	Totals
Retiree Premiums	\$ 2,436,737	\$ 25,528	\$ 2,462,265
University Premiums	7,313,768	76,584	7,390,352
Total Premiums	\$ 9,750,505	\$ 102,112	\$ 9,852,617
Medicare Retiree Drug Subsidy	836,322	-	836,322
Contributions to VEBA Trust	1,401,000	-	1,401,000
Net Investment Income	21,723,104	3,919,758	25,642,862
Benefits	(8,304,650)	(1,079,695)	(9,384,345)
Other Expenses	(283,874)	-	(283,874)
Increase in Net Assets	\$ 25,122,407	\$ 2,942,175	\$ 28,064,582
Net Assets Beginning of Year	125,846,122	22,528,640	148,374,762
Net Assets End of Year	\$ 150,968,529	\$ 25,470,815	\$ 176,439,344

Retiree premiums and employer matching premiums reflect the 25.0 percent-75.0 percent sharing of total premium per University policy. These premiums are paid into the University's health and life insurance accounts to help cover claims and administrative expenses, as well as contributions to the VEBA Trust and the LICF as needed.

The Medicare Retiree Drug Subsidy for the year ended June 30, 2007, is the first full fiscal year this subsidy has been received, and represents ten months of actual subsidy and two months of estimated subsidy, subsequently received in the following fiscal year. This item is paid to the University by Medicare in recognition of the fact that the University's retiree prescription drug benefit is at least actuarially equivalent to the benefit under Medicare Part D. As a result, Ball State University retirees covered by the University's retiree health care plan do not enroll in Medicare Part D. This subsidy recognizes the savings incurred by the Medicare program as a result. The amount is utilized to offset a portion of retiree and University shares of the premium.

In accordance with the estimates arising from the previous actuarial study of July 1, 2004, the University's health care plan needed to not only pay the retiree claims and administrative expenses, but also make an additional contribution to the VEBA Trust of approximately \$1,401,000 in order to fully cover the Annual Required Contribution (ARC). It is the University's policy to at least fund the total ARC each fiscal year. In years where additional funds might be available, the University may choose to contribute more than the ARC, to mitigate against future increase requirements.

As of June 30, 2007, actual Investment allocations, which are within the requirements of the investment policy, were as follows:

Domestic Large Capitalization Equities	49.7 %
Domestic Small Capitalization Equities	10.5 %
International Equities	10.2 %
Private Closed-End Real Estate Investment Trust (REIT)	9.6 %
Domestic Fixed Income (including short term)	20.0 %

The asset allocation, which was approved by the Board of Trustees, reflects Hewitt's research and analysis of Ball State University's requirements for returns and tolerance for risk. Optimization studies, comparisons to average allocations for pension plans, as well as prospects for earnings and risk for various asset classes are considered. At the present time, the asset allocation is more similar to a corporate pension plan than any other comparison, reflecting the fact that the University has a fiduciary responsibility to its retirees to provide the promised benefit when needed, even though the benefit cannot be calculated as precisely as a defined benefit pension plan. This allocation is reviewed with Hewitt on an ongoing basis and modified by the Trustees as needed.

For the fiscal year, as previously noted, the combined portfolio generated a total return of 18.0 percent, which put it in the 25th percentile of Hewitt's predominantly pension fund universe, and exceeded the custom index results of 17.9 percent. More importantly, the portfolios' policy objectives were met, since the annualized returns for the past five years placed it in the top 11.0 percent of the Hewitt universe of primarily pension funds and above the customized index.

International equities generated the best absolute returns, with 27.3 percent from American Funds Europacific Growth Fund and 26.3 percent from Causeway International Value Fund. CRM Small Cap Value Fund turned in the best performance of any domestic equity fund with 20.8 percent. Right behind CRM were the domestic large cap equity funds, with the Dodge & Cox separate account (VEBA only) returning 20.7 percent, the Vanguard Institutional Index closely tracking the Standard and Poor's 500 Index at 20.6 percent, and the Dodge & Cox Stock Fund (LICF only) returning 19.7 percent. The other domestic small cap fund, Friess Small Cap Trust, which has a growth bias, returned 16.4 percent.

Although the fiscal year was not generally good for real estate investment, the RREEF America REIT II, a private closed-end REIT that invests in "core" commercial real estate, returned 16.0 percent.

Both fixed income funds – JPMorgan Intermediate Bond separate account (VEBA) and Bear Stearns Bond separate account (LICF) returned 6.0 percent thanks to their emphasis on investment grade bonds.

Deductions are almost entirely made up of insurance claims, which are paid out of the University's health care plan in the case of health insurance claims, and out of the LICF in the case of life insurance claims. In addition, estimated claims incurred but not paid are included in the total deduction.

Required Supplemental Information

In addition to the two required financial statements, GASB Statement No. 43 also requires supplemental information in the form of two required schedules: the Schedules of Funding Progress and the Schedules of Employer Contributions. Both schedules are intended to show current and prior year amounts so that trends in funding can be ascertained. However, since this is the first fiscal year for which GASB Statement No. 43 is applicable, only the current year's information is available.

Schedules of Funding Progress

The Schedules of Funding Progress contains the Actuarial Accrued Liability (AAL), which is the reason for the fund balance shown on the Statement of Net Assets. For Health Care, the \$148,827,822 net assets in the VEBA Trust are compared to the AAL balance of \$171,887,451, which results in an Unfunded AAL (UAAL) of \$23,059,629, or a Funded Ratio of 86.6 percent under GASB Statement No. 43 rules, which, when compared to other plans, indicates a very secure benefit. Since the UAAL amounts to 16.9 percent of covered payroll, funding the remainder in one year would be a heavy

burden, which is why the University intends to fund the amount over no more than 30 years, and preferably fewer years if circumstances permit.

Life Insurance assets exceed the AAL, and when combined with the Health Care results, the total funded ratio becomes 91.2 percent. To the extent possible without impairing the adequacy of the LICF, funds will likely be transferred to the VEBA Trust in the future, as has happened on occasion in the past, to help with funding for retiree health insurance.

Schedules of Employer Contributions

These schedules compare actual contributions to the Annual Required Contribution (ARC), which is an actuarial calculation of "normal cost" each year plus the annual amortization of UAAL. Actual contributions consist, in the case of Ball State University, of employer-paid premiums plus any contributions to the VEBA and/or the LICF. In the case of health insurance, due to the fact that the actual contributions were based on an earlier actuarial study, the actual contributions exceeded the ARC, resulting in a percentage contributed of 120.5 percent. In addition, the Medicare Retiree Drug Subsidy increased the contributions to 132.1 percent. For life insurance, no contributions were made due to the funded ratio in the LICF exceeding 100 percent, as noted in the Schedules of Funding Progress.

Economic Factors That Will Affect the Future

The biggest single factor that affects the future of these programs is the pace of health care spending. Health care providers continue to improve the quality of their services to patients, in many cases curing or managing what was formerly incurable and beyond management. New technologies related to advances in health care have been bringing about significant diagnostic and treatment advances. However, all of this has come at a cost that exceeds the general rate of inflation. When combined with a rapidly aging population, the result has been a rate of increase that has on occasion been in double digits in the recent past. The current study by the consulting actuaries from Mercer assumes Ball State University retiree medical costs increasing as follows:

<u>Year</u>	<u>Pre-65 Medical</u>	<u>Post-65 Medical</u>	<u>Drugs</u>	<u>Dental</u>	<u>Administration</u>
2007	9.00%	8.00%	10.00%	5.00%	4.00%
2008	8.50%	7.50%	9.00%	5.00%	4.00%
2009	8.00%	7.00%	8.00%	5.00%	4.00%
2010	7.50%	6.50%	7.50%	5.00%	4.00%
2011	7.00%	6.00%	7.00%	5.00%	4.00%
2012	6.50%	5.50%	6.50%	5.00%	4.00%
2013	6.00%	5.00%	6.00%	5.00%	4.00%
2014	5.50%	5.00%	5.50%	5.00%	4.00%
2015+	5.00%	5.00%	5.00%	5.00%	4.00%

According to the actuaries, the earlier numbers represent recent experience with Ball State University's retiree population, while the later numbers consider the implication that the overall economy cannot sustain the current rates of increase in health care costs. Something will have to change in the way health care is priced and delivered. In all likelihood, it will be some combination of federal funding and mandates, incentives for healthy lifestyles, rationing of services, plus more direct consumer involvement and choice in the selection of treatment and the payment of health care expenses. Already we have seen in recent years the establishment of Medicare Part D prescription drug coverage with subsidies to qualifying employer drug plans for retirees, as well as high-deductible health savings account health insurance plans that incentivize members to choose care options based on price as well as other factors. Whatever form this takes, it is probable that the effect on the Ball State University plan will be positive.

Since June 30, 2007, markets have been volatile due to uncertainty in the U.S. economy as well as the global economy. One major contributor has been uncertainty about the quality of the securitized loans in the mortgage bond market, due to potential defaults in subprime mortgages. This problem has been further exacerbated by the decline in market values of residential property in the United States as well as a number of foreign countries. This has resulted in slower economic

growth in the United States and elsewhere, with the potential for an actual recession forecast by some. Further complicating the picture has been high prices in oil, food, and other commodities, leading to fears of inflation. While this may be a short-term problem, the longer this uncertainty persists, the more difficult it will be to maintain the current level of funding of the steadily increasing actuarial liability.

At the same time, the University has embarked upon an ambitious program of health enhancement and wellness for both active employees and retirees in order to reduce the rate of increase in serious illness and the associated health claims. It is hoped and anticipated that this effort will reduce health care claims expenditures and premiums for both employees and the University and reduce actuarial liabilities calculated in the future.

In summary, although there is a great deal of uncertainty in the economy and in the health care arena, Ball State University employees and retirees nevertheless have benefited from the long-term tangible commitment the University has made to funding these important retiree benefits. The level of funding that has been achieved to date is the best assurance that these benefits are secure for the future.

Requests for Information

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

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

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Ball State University
 Retiree Health and Life Insurance Plans
Statements of Net Assets
 June 30, 2007

	Retiree Health Care	Retiree Life Insurance	Totals
Assets:			
Cash and Short Term Investments	\$ 5,560,261	\$ 185,011	\$ 5,745,272
Receivables:			
Accrued Interest and Dividends	549,840	-	549,840
Retiree Contributions Receivable	22,661	292	22,953
Receivable from Ball State University	2,836,411	200,480	3,036,891
Miscellaneous Receivables	-	148,136	148,136
Total Receivables	\$ 3,408,912	\$ 348,908	\$ 3,757,820
Investments, at Fair Value:			
Fixed Income	\$ 25,594,895	\$ 4,513,007	\$ 30,107,902
Domestic Equity	88,065,125	15,465,447	103,530,572
International Equity	15,028,890	2,626,478	17,655,368
Real Estate Investment Trust	14,028,811	2,712,808	16,741,619
Total Investments	\$ 142,717,721	\$ 25,317,740	\$ 168,035,461
Total Assets	\$ 151,686,894	\$ 25,851,659	\$ 177,538,553
Liabilities:			
Accrued Expenses and Other Liabilities	\$ 26,365	\$ -	\$ 26,365
Benefits Payable	692,000	380,844	1,072,844
Total Liabilities	\$ 718,365	\$ 380,844	\$ 1,099,209
Net Assets:			
Held in Trust for Post -Employment			
Health and Life Insurance Coverage	\$ 148,827,822	\$ 25,502,751	\$ 174,330,573
Other Net Assets	2,140,707	(31,936)	2,108,771
Total Net Assets	\$ 150,968,529	\$ 25,470,815	\$ 176,439,344

See accompanying Notes to Financial Statements. An unaudited Schedule of Funding Progress is presented on page 21.

Ball State University
 Retiree Health and Life Insurance Plans
Statements of Changes in Plan Net Assets
 For the Year Ended June 30, 2007

	Retiree Health Care	Retiree Life Insurance	Totals
<u>Additions:</u>			
Contributions:			
Retiree Premiums	\$ 2,436,737	\$ 25,528	\$ 2,462,265
Employer Matching Premiums	7,313,768	76,584	7,390,352
Medicare Retiree Drug Subsidy	836,322	-	836,322
Ball State University Contributions to Fund	1,401,000	-	1,401,000
Total Contributions	\$ 11,987,827	\$ 102,112	\$ 12,089,939
Investment Income:			
Interest and Dividends from Investments	\$ 4,258,949	\$ 742,870	\$ 5,001,819
Net Gain from Sale of Investments	4,870,864	911,193	5,782,057
Unrealized Gains from Market Appreciation	12,909,319	2,375,913	15,285,232
Total Investment Income	\$ 22,039,132	\$ 4,029,976	\$ 26,069,108
Less Investment Expenses:			
Investment Custodial Fees	\$ 112,510	\$ 30,340	\$ 142,850
Investment Management Fees	143,914	79,926	223,840
Investment Consulting Fees	46,396	-	46,396
Other Investment (Income)/Expenses	13,208	(48)	13,160
Total Investment Expenses	\$ 316,028	\$ 110,218	\$ 426,246
Net Investment Income	\$ 21,723,104	\$ 3,919,758	\$ 25,642,862
Total Additions	\$ 33,710,931	\$ 4,021,870	\$ 37,732,801
<u>Deductions:</u>			
Benefits	\$ 8,304,650	\$ 1,079,695	\$ 9,384,345
Administrative Expenses	188,521	-	188,521
Actuarial Expenses and Audit Fees	95,353	-	95,353
Total Deductions	\$ 8,588,524	\$ 1,079,695	\$ 9,668,219
Net Increase	\$ 25,122,407	\$ 2,942,175	\$ 28,064,582
<u>Net Assets:</u>			
Beginning of Year	125,846,122	22,528,640	148,374,762
End of Year	\$ 150,968,529	\$ 25,470,815	\$ 176,439,344

See accompanying Notes to Financial Statements. An unaudited Schedule of Funding Progress is presented on page 21.

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**Ball State University
Retiree Health and Life Insurance Plans
Notes to Financial Statements
June 30, 2007**

Note A - Significant Accounting Policies

Reporting Entity

The Ball State University Retiree Health and Life Insurance Plans (the Plans) are single-employer defined benefit plans, one of which is considered a trust fund of the University, while the other is considered a variable life insurance contract. Ball State University (the University) is a public institution of higher education in the State of Indiana governed by a nine-member Board of Trustees in accordance with IC 20-12-57.5. As part of a comprehensive employee benefits program, Ball State University provides health and life insurance benefits, in addition to pension benefits, to eligible retired employees.

Health insurance at Ball State University is a self-funded plan that utilizes third party administrators for health and dental benefits and for prescription drug benefits. Each year, the Board of Trustees establishes premiums for the next fiscal year, of which 25.0 percent are paid by the employees and retirees, and 75.0 percent are paid by the University. The premiums are intended to fully fund all claims, administrative costs, reserve adjustments, and contributions to a VEBA Trust established to fund health care costs for eligible retirees and their beneficiaries. The claims and applicable administrative costs of current retirees are paid from the self-funded plan, while the contributions to the VEBA Trust are intended to partially fund claims and administrative costs for retirees in the future. All of these payments count toward the Annual Required Contribution payment as calculated under GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

Life insurance at Ball State University is purchased from CIGNA, with premiums equal to actual claims plus a monthly administrative charge. Ball State University accounts for the Life Insurance Plan in a manner similar to the Health Insurance Plan. Each year CIGNA establishes, and the Board of Trustees approves, premiums for the next fiscal year, and 25.0 percent is collected from employees and retirees and 75.0 percent from the University. The premiums are intended to fully fund all claims and administrative costs for employees and retirees. CIGNA pays actual claims, and bills the University for the employees and charges the LICF for the retiree claims and administration. On occasion, excess funds in the LICF are transferred to the VEBA Trust.

Contributions and Benefits

Retiree premiums, related University match, and federal subsidy are recognized when due. Contributions to the VEBA Trust and the LICF from the University are discretionary and are recognized when received. Benefits and refunds are recognized when due and payable, to the extent they can be ascertained, in accordance with the terms of the plan. The plans are described in greater detail in Note E.

Federal Income Tax Status

Ball State University is exempt from federal taxes under Section 115 of the Internal Revenue Code. In addition, the VEBA Trust is exempt under section 501(c)(9) and the LICF is exempt as a variable life insurance contract under Section 817(c).

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, the Plans make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Administrative Expenses

Administrative expenses of the Plans are generally absorbed by the University, except that administrative charges from third party administrators applicable to retiree health care are financed by premiums paid by the University and the retirees.

Commitments and Contingencies

Other than claims incurred but not reported, for which an accrual has been estimated, the Plans have not made any purchase commitments. There are no contingent liabilities as of the date of the financial statements.

Financial Statements

Due to the methods used to administer these plans, the financial statements reflect all of the activity in the health and life insurance plans as it pertains to retiree and University shares of premiums, claims, administrative costs, as well as contributions, investment activity and related costs in the VEBA Trust and the LICF. Balances included in the financial statements of the University are reflected as receivable from the University.

The financial statements are prepared using the accrual basis of accounting. Premiums from retirees and the University are recognized in the period they are due, while contributions to the VEBA Trust and the LICF are recognized when paid by the University. The Medicare Retiree Drug Subsidy is recognized in the period to which the subsidy pertains, with any unknown amounts estimated based on the amounts known. Benefit claims are recognized in the period incurred and payable, to the extent they are known or able to be estimated. Actual results will differ from these estimates, and will be recognized in the subsequent period.

Net Assets

Net assets are composed of two amounts, the larger of which is the amount on deposit in the VEBA Trust and the LICF at fair value on June 30, 2007. The remaining amount, classified as other net assets, represents assets that have not been deposited with the VEBA Trust and the LICF as of June 30, 2007.

Note B - Investments

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

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

The portfolio's risk exposures are as follows:

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

The following tables present the quality ratings of non-government-guaranteed fixed income assets in the LICF and the VEBA Trust as of June 30, 2007.

LICF
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities

Moody's Rating	Agency	Corporate Bonds		Mortgage Backed Securities	Collateralized	Asset Backed Securities
		Short Term	Long Term		Mortgage Backed Securities	
Agency	\$ 345,000	\$ -	\$ -	\$ 1,312,000	\$ 14,000	\$ -
Aaa	-	-	65,000	493,000	431,000	91,000
Aa	-	35,000	503,000	-	-	49,000
A	-	-	280,000	-	-	16,000
Baa	-	10,000	12,000	-	-	-
Total	\$ <u>345,000</u>	\$ <u>45,000</u>	\$ <u>860,000</u>	\$ <u>1,805,000</u>	\$ <u>445,000</u>	\$ <u>156,000</u>
Percent of All Fixed Income Assets	7.4%	1.0%	18.3%	38.4%	9.5%	3.3%

VEBA Trust
Average Credit Quality and Exposure
Levels of Non-Government Guaranteed Securities

Standard & Poor's Agency	Federal Agencies			
	Bonds & Notes	Pass Throughs	Collateralized	
			Mortgage Backed Securities	Foreign Government Obligations
	\$ -	\$ 2,043,672	\$ 6,829,841	\$ -
AAA	1,151,051	-	-	-
AA+	-	-	-	-
AA	103,344	-	-	69,764
AA-	-	-	-	-
A+	-	-	-	146,231
A	-	-	-	-
A-	-	-	-	-
BBB+	-	-	-	-
Total	<u>\$ 1,254,395</u>	<u>\$ 2,043,672</u>	<u>\$ 6,829,841</u>	<u>\$ 215,995</u>
Percent of All Fixed Income Assets	4.2%	6.8%	22.8%	0.7%

Standard & Poor's Agency	Corporate Bonds & Notes		Foreign Corporate Bonds		Asset Backed Securities
	Short Term	Long Term	Short Term	Long Term	
		\$ -	\$ -	\$ -	
AAA	-	269,248	-	-	2,238,994
AA+	-	64,529	-	43,888	-
AA	125,470	535,606	-	-	-
AA-	195,842	659,334	-	188,415	-
A+	68,943	771,034	-	-	-
A	88,713	453,378	-	-	-
A-	-	428,296	24,811	85,841	-
BBB+	-	39,740	-	109,277	-
Total	<u>\$ 478,968</u>	<u>\$ 3,221,165</u>	<u>\$ 24,811</u>	<u>\$ 427,421</u>	<u>\$ 2,238,994</u>
Percent of All Fixed Income Assets	1.6%	10.8%	0.1%	1.4%	7.5%

- Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issuer. Neither the LICF nor the VEBA Trust has a single issuer exposure that comprises five percent of the overall portfolio.
- Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolios of the LICF and the VEBA Trust are monitored by measuring the weighted average duration of each portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The Investment Policy for the LICF portfolio states that the total portfolio duration should not deviate by more than one year from the duration of the Lehman Brothers aggregate Fixed Income Index. Similarly, the Investment Policy for the VEBA Trust

portfolio states that the total portfolio duration should not deviate more than one year from the duration of the Lehman Brothers Government Credit Intermediate Fixed Income Index.

The following tables list the effective weighted average duration of fixed income investments in the LICF and the VEBA Trust at June 30, 2007.

LICF

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>June 30, 2007</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Securities	\$ 968,000	20.6%	6.0
Federal Agency Securities	\$ 345,000	7.3%	8.6
Corporate Bonds	\$ 906,000	19.3%	4.9
Mortgage Backed Securities	\$ 1,805,000	38.4%	4.0
Collateralized Mortgage Backed Securities	\$ 445,000	9.5%	4.5
Asset Backed Securities	\$ 156,000	3.3%	2.3
Cash and Money Market	\$ 72,000	1.5%	-

VEBA Trust

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>June 30, 2007</u>	<u>Percent of</u> <u>All Fixed</u> <u>Income</u> <u>Assets</u>	<u>Weighted</u> <u>Average</u> <u>Duration</u> <u>(Years)</u>
U.S. Treasury Securities	\$ 10,145,000	33.7%	3.7
Federal Agency Securities	\$ 1,276,000	4.2%	2.9
Mortgage Backed Securities	\$ 10,050,000	33.3%	4.1
Asset Backed Securities	\$ 883,000	2.9%	1.3
Collateralized Mortgage Backed Securities	\$ 694,000	2.3%	3.1
Corporate Bonds	\$ 4,481,000	14.9%	3.2
Cash and Money Market	\$ 2,621,000	8.7%	-

6. Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Currency risk exposures, or exchange rate risk, for the VEBA Trust and the LICF primarily reside within international equity investment holdings. The amounts and countries listed are in addition to holdings within mutual funds in the portfolios. Any hedges through currency forward contracts are at the discretion of the investment managers.

VEBA Trust and LICE

Country	Fixed Income	Equities
Bahamas	\$ -	\$ 28,460
Bermuda	-	596,132
Canada	601,177	138,723
Cayman Islands	-	47,430
France	-	1,109,418
Germany	6,011	-
Israel	-	132,800
Japan	-	2,294,212
Marshall Islands	-	85,370
Mexico	-	136,087
Netherlands	-	1,730,859
Qatar	4,739	-
Switzerland	-	347,634
United Kingdom	285,004	2,034,994
Total	\$ <u>896,931</u>	\$ <u>8,682,119</u>

Note C – Derivatives

The investment policy strictly limits derivatives as follows:

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

Note D – Contributions and Reserves

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

Note E – Description of Plans

Substantially, all of the University's regular full-time employees may become eligible for retiree health and life insurance coverage if they retire from the University after accruing the required years of service (15 years at age 50; 10 years at age 60 for those hired before September 1, 1999). As of June 30, 2007, 1,320 retired employees were covered by retiree life insurance, while 1,867 retired employees, spouses and surviving spouses were covered by retiree health insurance. In addition, 861 out of a total of 2,895 benefits eligible active employees had fulfilled the age and service requirements for these retiree benefits as of June 30, 2007.

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

For the year ended June 30, 2007, retirees contributed \$2.4 million in premiums for health care coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$7.3 million as its 75.0 percent requirement. Monthly premiums paid by retirees not eligible for Medicare ranged from \$101.88 for single coverage in the least expensive plan option to \$571.42 for family coverage in the most expensive plan option. Most non-Medicare retirees paid \$137.86 per month for single coverage and \$357.86 per month for family coverage. Medicare-eligible retirees and spouses each paid \$89.72 for medical and prescription drug coverage and \$9.22 if they chose the optional dental coverage. This was in addition to the Medicare Part B Premium.

Eligible employees receive life insurance coverage equal to 103.0 percent of twice the amount of their defined annual compensation, up to a maximum of \$75,000. Retirees are eligible to receive 50.0 percent of the amount of coverage they have immediately prior to retirement or prior to reaching age 66, whichever occurs first. Faculty and professional personnel who retire under the Early Retirement Program have the option of receiving 40.0 percent of the amount of coverage they are entitled to receive in retirement as a cash settlement in lieu of coverage.

For the year ended June 30, 2007, retirees contributed \$25.5 thousand in premiums for life insurance coverage to fulfill their 25.0 percent of total premium requirement, while the University contributed \$76.6 thousand as its 75.0 percent requirement. Retirees pay \$.07 per \$1,000 of coverage per month, which means the maximum monthly premium paid by retirees is \$2.63

Note F – Funded Status and Funding Progress

The funded status of each plan as of the most recent actuarial valuation date is as follows:

	Valuation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
		Value of Assets	Accrued Liability (AAL)				
Health	7/1/07	\$ 148,827,822	\$ 171,887,451	\$ 23,059,629	86.6%	\$ 136,645,256	16.9%
Life	7/1/07	25,238,907	19,036,901	(6,202,006)	132.6%	\$ 136,645,256	-4.5%
Total		<u>\$ 174,066,729</u>	<u>\$ 190,924,352</u>	<u>\$ 16,857,623</u>	91.2%	\$ 136,645,256	12.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, will in the future present

multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of University contributions present trend information about the amounts contributed to the plan by the University in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Valuation Date	July 1, 2007
Actuarial Cost Method	Projected unit credit
Amortization Method	Level percentage of projected payroll over a 30-year period
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5% per year compounded annually
Payroll Growth Rate	4.0%
Healthcare Cost Trend Rates:	
Pre-65 Medical	9.0% initial / 5.0% ultimate (not applicable to Life)
Post-65 Medical	8.0% initial / 5.0% ultimate (not applicable to Life)
Prescription Drugs	10.0% initial / 5.0% ultimate (not applicable to Life)
Dental	5.0%
Administration	4.0%

**Ball State University
Retiree Health and Life Insurance Plans
Required Supplemental Information
June 30, 2007**

Schedules of Funding Progress

	Valu- ation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
		Value of Assets	Accrued Liability (AAL)				
Health	7/1/07	\$ 148,827,822	\$ 171,887,451	\$ 23,059,629	86.6%	\$ 136,645,256	16.9%
Life	7/1/07	\$ 25,238,907	\$ 19,036,901	\$ (6,202,006)	132.6%	\$ 136,645,256	-4.5%

Valuations prior to July 1, 2007, were not valued in accordance with GASB Statement No. 43.

Schedules of Contributions from University and Other Entities

Year Ended June 30	Health Care				Life Insurance	
	Annual Required Contribution	Percentage Contributed	Federal Subsidy	Total Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007	\$ 7,231,271	120.5%	\$ 836,322	132.1%	\$ 74,559	0.0%

Valuations prior to July 1, 200, were not valued in accordance with GASB Statement No. 43.