Financial Report

YEAR ENDED JUNE 30, 2006

Ball State University

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, 2006,

and the results of activities for

the year then ended.

Thomas J. Kinghorn
Vice President for Business Affairs
and Treasurer

December 15, 2006

This financial report has been prepared

by the Office of Controller and Business Services

Ball State University, Muncie, Indiana 47306

Ball State University

2005-2006

Officers

University President

Jo Ann M. Gora

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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, 2006 and 2005. 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, 2006 and 2005, 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 21, 2006, 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.

STATE BOARD OF ACCOUNTS
State Board of Accounts

November 21, 2006

Ball State University
Management's Discussion and Analysis
June 30, 2006

Introduction

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

The University 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 2005, totaled 18,415 full-time equivalent students from a total headcount of 20,652. On-campus enrollment totaled 16,533 full-time equivalent students from a total headcount of 17,728, 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, 2006, 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, which are used primarily for operations, are required to be shown as non-operating revenue.
- Scholarship allowances are required to be recorded in three different places: as a reduction to tuition and fees, as a reduction to room and board and as an operating expense. The user must total the three amounts in order

to ascertain the total scholarship aid received by students from the University. Not included in these amounts are scholarship aid received directly by students, as well as loan and work-study aid.

- 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 first year of the 2005-07 biennium, which was impacted by lower appropriations from the State of Indiana due to across the board reductions designed to bring the overall state budget into balance. Included in the biennial budget was 43 percent of the formula appropriation for renewal and replacement of academic and administrative buildings and infrastructure. During the year, the University issued $35.4 million in bonds, of which $29.4 million are for the construction of the Park Residence Hall and $6.0 million are for the renovation of Woodworth Dining. Finally, the State, having withheld payment of one monthly appropriation in fiscal 2005, plans to pay $4.1 million of that amount during fiscal 2007, leaving $6.7 million still to be paid at a future date.

The University received 265 funding awards for research and other sponsored programs, totaling $23.4 million. Included in this total is $0.9 million from the Army Research Office to the Software Engineering Research Center to improve the reliability and security of software systems used by the military. Another noteworthy award for an ongoing program was $1.5 million for Smoke Free Indiana, the Comprehensive State Based Tobacco Prevention and Control Program. This program provides help and resources for citizens who wish to stop smoking.

Supporters of Ball State University contributed $38.0 million in private gifts during fiscal 2006. Included in this total was a $20.0 million four-year grant from the Lilly Endowment to create the Digital Exchange, which involves the creation of four new immersive-learning institutes: the Institute for Digital Fabrication and Rapid Prototyping, the Institute for Intermedia and Animation, the Institute for Digital Entertainment and Education, and the News Research Institute. Students and faculty from all seven colleges are involved in this endeavor.


Park Residence Hall


Communication Media Building

Construction began on the Park Residence Hall, which is designed to accommodate over 500 students, primarily in rooms clustered around semi-private baths, with a limited number of rooms with private baths. Seminar and multi-purpose rooms are included to facilitate living/learning opportunities for residents. Construction also continued on the Communication Media Building, a state of the art facility which 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 of Communications, Information and Media. This facility 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. Both of these buildings are expected to be completed for Fall 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, 2006.

Net Assets
June 30, 2006 and 2005

	2006	2005
Assets:		
Current Assets	$ 130,259,590	$ 102,077,872
Noncurrent Assets:		
Capital Assets, Net of Depreciation	375,196,175	402,985,745
Other	188,853,880	152,357,413
Total Assets	$ 694,309,645	$ 657,421,030
Liabilities:		
Current Liabilities	$ 44,836,812	$ 32,116,879
Noncurrent Liabilities	151,191,151	109,385,306
Total Liabilities	$ 196,027,963	$ 141,502,185
Net Assets:		
Invested in Capital Assets Net of Related Debt	$ 249,001,147	$ 307,338,474
Restricted	52,736,479	29,164,807
Unrestricted	196,544,056	179,415,564
Total Net Assets	$ 498,281,682	$ 515,918,845
Total Liabilities and Net Assets	$ 694,309,645	$ 657,421,030

Current and Other Assets

Current and other assets increased over the previous year, due primarily to increased investments and deposits with bond trustee resulting from bonds issued for major capital projects not yet completed.

Debt Administration

The University had $124.7 million of bond indebtedness outstanding at June 30, 2006, compared to $94.1 million outstanding the prior year end. These bonds have an insured rating of Aaa (Moody's) and AAA (Standard & Poor's). Student Fee Revenue Bonds in the amount of $35,425,000 were issued in 2006 to fund construction of the Park Residence Hall and the renovation of Woodworth Dining. The University has a $1,500,000 note payable to Mutual Federal Savings 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.

Capital Assets

On June 30, 2006, the University had $249.0 million invested in capital assets, net of accumulated depreciation of $215.9 million and related debt of $126.2 million. Depreciation charges totaled $13.8 million for the current fiscal year. All of these amounts reflect original cost rather than replacement cost. Major construction during the year included $8.7 million expended for construction of the new Communication Media Building and $7.6 million expended for construction of the new Park Residence Hall, both of which were funded from bond proceeds. Current operating funds were utilized to purchase $6.0 million in educational equipment, some of which replaced mostly fully-depreciated equipment dispositions originally costing $8.8 million.

Phase II of the McKinley and Riverside Avenues Street Safety Improvement Project, McKinley Avenue from Petty to Bethel, began in spring 2006, and was completed before the beginning of Fall Semester 2006. Phase III will improve Riverside Avenue East and West of McKinley. These projects, funded primarily by federal grants with state appropriated matching funds from Ball State University, impact the two principal arteries within the main campus, and feature improvements to surface drainage, vehicular traffic flow, pedestrian safety, lighting and traffic signals, and crosswalks and waiting areas with raised medians to improve pedestrian safety. Ball State University provided $0.8 million as its share of Phase II.


Phase 2 – McKinley Avenue

Phase 2 – McKinley Gateway

Construction will 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 and other private support.


Proposed Scheumann Football Stadium

Major renovations are needed in many of the academic buildings on the campus. For the 2007-09 biennium, the University has identified as its highest priority three academic buildings: Teachers College (constructed in 1966), Applied Technology (constructed in two phases between 1948 and 1950), and North Quadrangle (constructed in three phases in 1926, 1932, and 1953). It is estimated that the cost to renovate these three buildings will be $30.0 million. This project, entitled the Central Campus Academic Project, has been submitted with the legislative request.


Teachers College


Applied Technology


North Quadrangle

The University also has a heat plant that needs major renovation, including retiring and replacing four coal-fired boilers, the oldest of which is 65 years old. The estimated cost of this project is $48.0 million. This project was submitted with the legislative request for the 2005-07 biennium and was authorized by the Indiana General Assembly.

Ball State University's Heat Plant

Keeping valuable capital assets in good condition in order to accomplish the mission of the University is an ongoing challenge requiring a strong commitment to long-range planning. Because much of the campus was constructed 35 to 55 years ago, the renewal needs at this time are substantial. In the net assets section, this planning will be described in greater detail.

Net Assets

The University's net assets totaled $498.3 million as of June 30, 2006. This includes the $249.0 million in capital assets net of depreciation and related debt. It also includes $1.0 million in nonexpendable endowment restricted for student scholarships, as well as $3.2 million restricted for debt service, $2.1 million restricted for student loans, $42.6 million restricted for construction, and $3.8 million restricted for external grants. The remaining balance of $196.5 million is in unrestricted net assets, which do not have externally imposed restrictions, but have been internally restricted for specific authorized purposes. Unrestricted net assets represent resources derived from student fees, state appropriations, and revenue from auxiliary enterprises, and are internally restricted for specific purposes at the close of each fiscal year. These specific purposes include self-insurance reserves, student scholarships, student loans, funding for instructional and athletic camps, workshops, and field trips, campus expansion and development, new building construction, and stewardship and renewal of capital assets. These internally restricted amounts are further discussed in the following paragraphs.

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 105 elevators, 373 technology-equipped general-purpose classrooms and technologically complex mechanical operating systems in each structure. The average building at Ball State University is 43 years old. The University also owns 1,037 acres of land, 715 of which are developed. Under the ground, the University has over 17 miles of steam, condensate and chilled water piping; over 19 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 1,257 outside lighting poles, 33 miles of sidewalks and service roads, and 50 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.

Stewardship and Renewal of State Supported Academic and Administrative Buildings

The current replacement value of campus facilities is approximately $1.3 billion based on valuations determined by utilizing the Markel 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. Approximately 55 percent of the campus square footage is dedicated to academic and administrative 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 had approximately $30.0 million in deferred funding for academic buildings and infrastructure. Because of the critical nature of this problem, $2.1 million has been allocated for maintenance and equipment for targeted academic buildings. 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.

The current replacement value for these facilities is $387.0 million. Over the next seven years, the University plans to use more than $130.0 million of these funds, in current dollars, for scheduled major projects as well as ongoing capital repair and replacement projects. For example, the plan includes construction of a new residence hall for 600 students, as well as major renovations of DeHority Halls and Johnson Halls.

Johnson Hall Complex

The University's parking facilities consist of three parking garages with 1,498 spaces and 50 acres of surface parking, with an additional 7,954 spaces. The current replacement value for these facilities is $40.5 million. A long term plan is in place to provide for necessary periodic maintenance and major renovations to insure that these facilities will serve the University for years to come. The Parking Facilities Renewal account currently contains $4.7 million, funded primarily from parking revenues, including permits, daily fees, and citations. The University plans to spend more than $3.5 million, in current dollars, over the next seven years and over $5.5 million in the next ten years for major and ongoing renewal of these facilities.

Worthen Arena at Night

Examples of the remaining non-state supported facilities include the student center, health center, conference centers, Emens Auditorium and recreational and athletic facilities, with a total current replacement value of $99.0 million. Each of these facilities has its own renewal plan, based on its age and life cycle of its various components.

L. A. Pittenger Student Center

In order to fund the renewal of these facilities, $32.5 million has been allocated from the applicable auxiliary revenues, as well as the student fees allocated for the support of these activities each year. Over the next seven years, more than $33.0 million in current dollars will be used from this account for major renovations as well as regular on-going capital renewal projects. For example, major renovations are planned for the L. A. Pittenger Student Center and Emens Auditorium. In addition, Worthen Arena is approaching an age when certain significant rehabilitation projects must be undertaken to avoid costly deferred maintenance in future years.

Campus Development, Technological Advancement, and Other Capital Projects

Since 1922, the University has had a plan in place for orderly campus development, with regular updates to keep current with changing conditions and strategic goals. Many University buildings currently in operation occupy land that the University purchased over many years' time. For example, in the case of the land where the Music Instruction Building and McKinley Avenue Parking Structure are located, the last parcel was purchased in 2003. The University has allocated $15.4 million for campus development purposes.

For approximately 30 years, the University has continued to operate with state of the art computing equipment to serve the campus needs through University Computing Services. This has been accomplished by a consistent funding methodology with an annual allocation for equipment renewal. Presently, this account has a balance of $6.4 million for this purpose as well as for other automated systems such as the library automation systems. At the same time, $5.0 million has been set aside for purchase and/or development of University-wide software. In the next few years, the University plans a major replacement of its central administrative systems, which will involve hardware as well as software replacement.

The University has allocated $12.1 million for several capital projects that are either in progress or recently authorized, including furnishings and equipment for both the new Communication Media Building and the Central Campus Academic Project, and replacement and upgrade of the campus telephone system.

Insurance and Other Exposures

The University's student fee revenue bonds are secured by pledges and first liens on student fees. While the Indiana General Assembly has appropriated amounts each year equal to the required payment on these bonds in the form of a Fee Replacement Appropriation, there is no guarantee that this appropriation will be renewed in any subsequent year, as the current General Assembly cannot legally bind future General Assemblies. In accordance with state statutes and bond indenture agreements, $9.3 million has been allocated from student fees for principal and interest payments on student fee revenue bonds. This amount ensures that the University can meet its immediate obligations to bondholders.

Because of its scale of operations, Ball State University is able to reduce operating costs by self-insuring, where possible, rather than purchasing higher cost insurance coverage from an outside carrier. This means, however, that the University must provide reserves similar to the reserves that are required of commercial insurers. Self-insurance reserves total $12.3 million, of which $9.2 million pertains to the self-insured health care plan for employees, retirees, and their families. Of the $9.2 million, $4.1 million represents claims that were incurred but not yet paid as of year end, while $5.1 million is available for higher than anticipated claims in any given year. These amounts are established each year in consultation with the University's consulting actuaries. Of the remaining $3.1 million in reserves, $1.7 million pertains to the employee and retiree life insurance plan, while the remaining $1.4 million is available to cover higher than expected expenditures in unemployment and workers' compensation, as well as the high deductibles for property and casualty insurance.

One of the primary emphases of Ball State University's new strategic plan is a more selective and diverse student body. As this plan is implemented, it is anticipated that there may be an initial short-term decrease in overall enrollment. In order to provide the financing to partially offset the potential loss in student fees over the next few years, the University has allocated $4.1 million from the general fund for the Student Selectivity Enrollment Contingency Allowance.

The University has taken steps to deal with unexpected expenses or catastrophic events, such as a major pandemic, a major weather-related event, other adverse acts of nature, or other claims. To help defray the unexpected costs of such an event, $4.1 million has been allocated.

Other Allocations

In addition to $11.0 million in restricted student loan funds, the University has designated another $0.4 million for the benefit of students with demonstrated need. Included are the funds for emergency loans for students whose financial aid packages have not been finalized. Similarly, while the University has $1.0 million in non-expendable endowment restricted by the donors for student scholarships, the University has designated another $1.4 million in unrestricted private donations to be used as an endowment for student scholarship purposes.

The unrestricted net assets also contain $27.2 million in operating funds throughout the University. These funds represent residual balances in operating accounts that will be carried forward to the next year for the intended purposes. It also includes fees collected but not yet expensed for specific purposes, including workshops, academic and athletic camps, and conferences.

Each year, the University is required by the Government Accounting Standards Board to recognize the market value of its investments as of June 30, even though the University seldom disposes of any investment instrument prior to its maturity. Because of the increase in interest rates that occurred during fiscal year 2006, the market adjustment was negative, and the largest portion, $4.7 million, was applied to the balances in unrestricted net assets, in accordance with Board of Trustees policy.

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, 2006. Note that, for purposes of this statement, state appropriations are considered non-operating revenues.

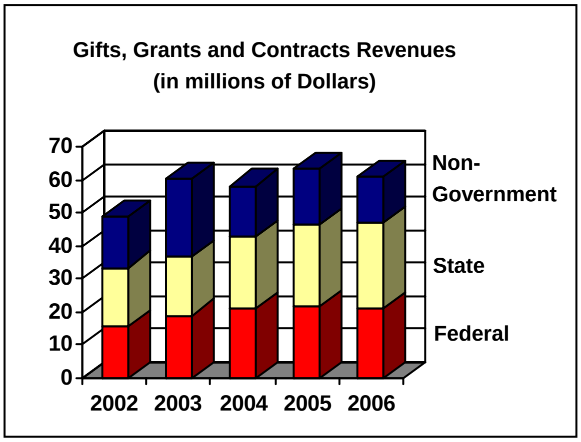
Change in Net Assets
Year Ended June 30, 2006 and 2005

		2006		2005
Operating Revenues	$	219,711,996	$	214,051,948
Operating Expenses		338,198,979		332,415,517
Net Operating Income/(Loss)	$	(118,486,983)	$	(118,363,569)
Net Non-Operating Revenues		140,326,697		141,714,712
Other Revenue – Capital Appropriations		2,621,019		-
Increase in Net Assets	$	24,460,733	$	23,351,143
Net Assets - Beginning of Year		515,918,845		501,136,942
Restatement - Correction for Reclassification				(8,569,240)
Restatement - Change in Accounting Policy		(42,097,896)		-
Net Assets - End of Year	$	498,281,682	$	515,918,845

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 net revenue increased $3.7 million as a result of rate increases, and auxiliary enterprises revenue, including housing and dining net revenues, increased $2.3 million due to increased revenues from University Banquet and Catering, Cardinal Crossing Food Court, and Intercollegiate Athletics. Scholarship allowances, generated by federal and state financial aid funds as well as internally generated discounts, have reduced tuition and fees revenue by $38.9 million and room and board revenue by $2.5 million.

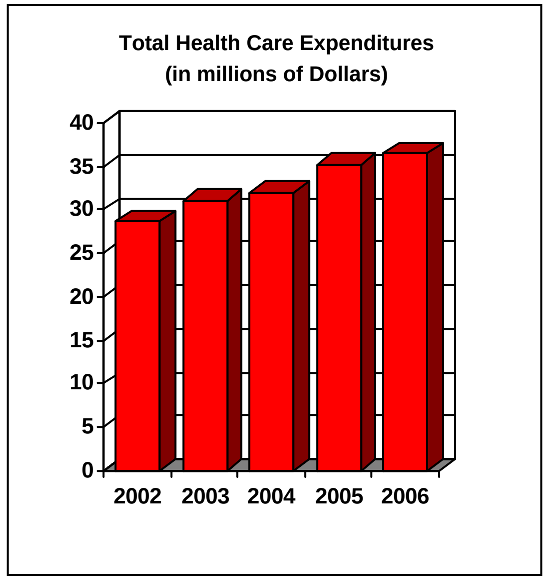


Gifts, Grants and Contracts revenue decreased by $1.7 million. This was partly due to a large number of awards received in June, which means that the revenue will be realized in subsequent years. 2006 was also the last year for the $20.1 million iCommunications grant from the Lilly Endowment that was received in 2002, and the first year for the new $20.0 million Digital Exchange grant from the Lilly Endowment. It is expected that in subsequent years the utilization of the Digital Exchange grant will exceed the utilization of the two grants this year, as projects are brought to completion.

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 $6.1 million, which are in addition to $38.9 million and $2.5 million in scholarships and fee remissions netted against tuition and fees revenue and room and board revenues, respectively.

For 2006, other operating expenses are $2.5 million higher, due primarily to increases in repairs and maintenance and other supplies expense, while salaries and benefits are $3.3 million higher due primarily to increases in health care expenditures. Approximately 89 percent of the University's employees electing the health care benefit were members of the Preferred Provider Organization (PPO) Plan for fiscal year 2006. 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 2007. 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. To combat this trend, the University is offering two less expensive health care plans to employees for 2007, and is implementing a health enhancement program for employees, retirees and spouses.



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

For 2006, state appropriations decreased by $0.9 million, or less than one percent from the previous year. The University received notification that $4.1 million of a $10.8 million monthly appropriation installment that had not been received from the State of Indiana in 2005 would be received in 2007. Therefore, this amount has been recorded as a current receivable, while $6.7 million remains as a long-term receivable for the future.

Interest rates increased through most of fiscal 2006, which generated higher interest receipts. However, the University, which generally holds investments until maturity, was nevertheless required to report a $5.6 million decline in market value, which normally occurs in an environment of increasing rates. As a result, the University reported $6.3 million in investment income for the year, as compared to $7.3 million in the previous year.

Other Revenues

Renewal and Replacement Appropriations

2002	2003	2004	2005	2006
$1.9 million	$0.0	$0.7 million	$0.0	$2.6 million

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 increased from $0.0 in the prior year to $2.6 million for the current year. The $2.6 million represents approximately 43 percent of the formula used by the State of Indiana for renewal and replacement funding.

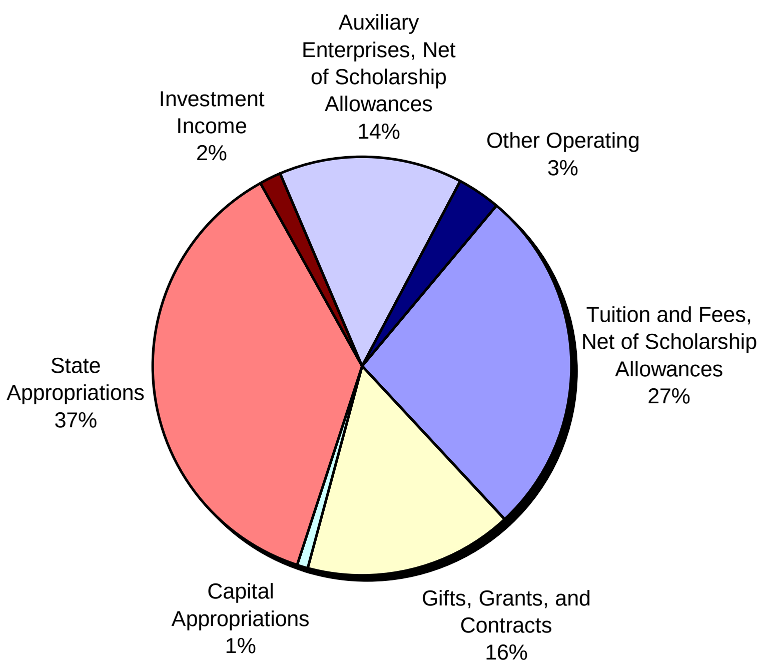
Restatement – Correction for Reclassification

In 2005, expendable net assets restricted for student loans included the federal contribution for the Perkins Loan Fund. In the unlikely event that this fund would terminate, this would be payable to the federal government. Therefore, for 2005 and 2006, this contribution has been classified as a long term liability.

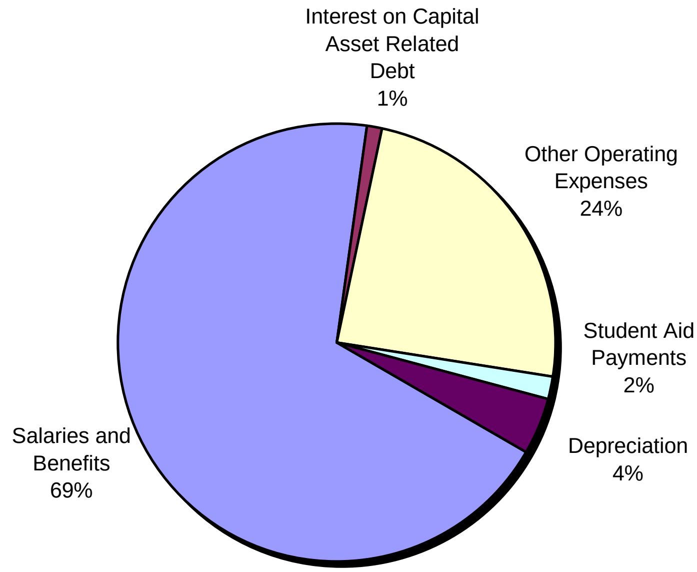
Change in Accounting Policy

The University decided to stop recording library acquisitions of books and periodicals as capital assets, beginning with fiscal year 2006. From now on, these acquisitions will be expensed in the year they are acquired. Because of this change, net capital assets have been reduced by $42.1 million, representing the net capitalized value of library books and periodicals previously recorded.

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, 2006

Cash and Equivalents Provided by / (Used In):		
Operating Activities	$	(80,351,266)
Non-Capital Financing Activities		139,185,942
Capital and Related Financing Activities		(2,603,873)
Investing Activities		(31,481,188)
Net Increase in Cash and Equivalents	$	24,749,615
Cash and Equivalents – Beginning of Year		53,488,409
Cash and Equivalents – End of Year	$	78,238,024

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, due to the new $20.0 million Lilly Endowment Grant. 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.

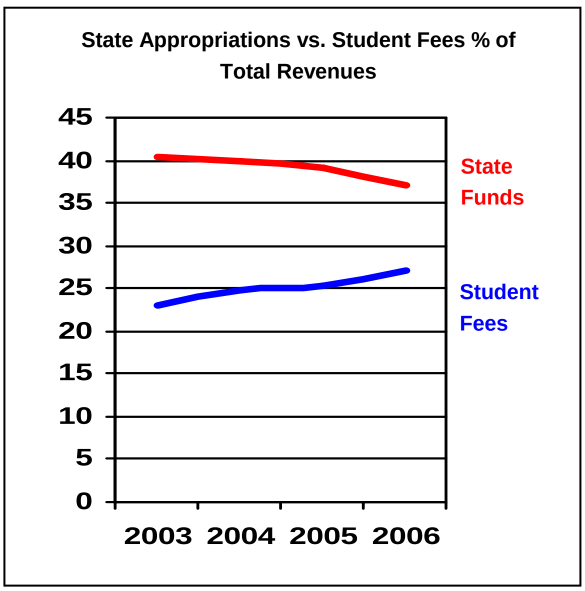
Cash flows provided from non-capital financing activities primarily reflect state appropriations received of $134.4 million.

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 and Park Residence Hall.

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.

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 a 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 changes in enrollment; 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.



The University's enrollment declined slightly in Fall, 2006, and may decline somewhat in subsequent years as the new diversity and selectivity standards are implemented. Following that, the University expects enrollment to stabilize and then increase. To preserve the quality of the students' educational experience, the University must be adequately funded during this period.

The University must ensure that the necessary resources are provided to keep pace with the growing needs to renew aging facilities and to adapt these facilities to the changing academic needs that will occur over the life of any long-lived asset. Financial Planning Guidelines for Facility Renewal and Adaption, a study cited earlier in this discussion, estimates that between two percent and four percent of plant replacement cost needs to be provided, on average, each year to accomplish this task. Current state funding formulas are inadequate to provide the $23.5 million needed for academic facilities, even when the full funding formula is appropriated. As a result, the University has been forced to provide resources from other sources.

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, 2006, Ball State University's actuarial liability for this benefit is estimated to be $168.1 million, while the trust fund established to assist in financing this liability has a market value of $125.7 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.

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. Technological advances in medical testing and treatment, as well as new prescription drugs, along with federal and state legislative and regulatory pronouncements, all add to the uncertainty involved in the management of this important employee benefit. The University will continue to monitor developments in this area and take whatever actions are necessary to offer the most effective and efficient health care program possible.

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, 2006 and 2005

		2006		2005 Restated
Assets:				
Current Assets:				
Cash and Cash Equivalents	$	78,238,024	$	53,488,409
Short Term Investments		14,428,963		19,362,398
Accrued Interest Receivable – Investments		3,363,297		1,708,624
Accounts Receivable, Net, and Unbilled Costs		21,393,579		17,675,192
Inventories		1,035,899		931,216
Deposit with Bond Trustee		9,856,206		6,856,454
Notes Receivable, Net		1,123,233		1,165,425
Prepaid Expenses		820,389		890,154
Total Current Assets	$	130,259,590	$	102,077,872
Noncurrent Assets:				
Endowment Investments	$	2,450,288	$	2,298,423
State Appropriation Receivable		6,678,812		10,755,874
Notes Receivable, Net		8,825,030		9,352,849
Other Long Term Investments		170,899,750		129,950,267
Capital Assets, Net		375,196,175		402,985,745
Total Noncurrent Assets	$	564,050,055	$	555,343,158
Total Assets	$	694,309,645	$	657,421,030
Liabilities:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$	25,331,402	$	19,552,641
Deposits		5,456,396		4,790,414
Deferred Revenue		7,194,133		2,896,581
Long Term Liabilities – Current Portion		6,854,881		4,877,243
Total Current Liabilities	$	44,836,812	$	32,116,879
Noncurrent Liabilities:				
Liability for Compensated Absences	$	6,703,492	$	6,517,690
Advances on Long Term Grants		12,247,158		-
Perkins Loan Program - Federal Capital Contribution (See Note B)		8,935,709		8,826,673
Long Term Liabilities, net		123,304,792		94,040,943
Total Noncurrent Liabilities	$	151,191,151	$	109,385,306
Total Liabilities	$	196,027,963	$	141,502,185
Net Assets: (See Note B)				
Invested in Capital Assets, Net of Related Debt	$	249,001,147	$	307,338,474
Restricted for:				
Nonexpendable Scholarships		1,032,643		1,043,827
Expendable:				
Debt Service		3,210,855		1,461,969
Loans		2,060,428		2,005,847
Construction		42,640,436		20,967,185
External Grants		3,792,117		3,685,979
Unrestricted		196,544,056		179,415,564
Total Net Assets	$	498,281,682	$	515,918,845
Total Liabilities and Net Assets	$	694,309,645	$	657,421,030

Ball State University
Foundation

Statement of Financial Position

June 30, 2006 and 2005

	2006	2005
Assets:		
Cash	$ 230,849	$ 214,262
Interest and Dividends Receivable	163,369	248,939
Contributions Receivable (Net of Allowances: 2006 - $635,043; 2005 - $732,879)	11,764,863	11,136,232
Property Held for Sale	2,127,417	1,341,508
Beneficial Interest in Remainder Trusts	3,130,579	2,981,310
Note Receivable	1,980,438	2,747,259
Investments in Marketable Securities	172,080,772	146,824,871
Investments Held in Split-Interest Agreements	3,313,316	3,972,807
Bond Issue Costs and Other Assets	101,696	119,824
Cash Surrender Value of Life Insurance	850,730	788,159
Property and Equipment	1,350,936	644,994
Beneficial Interest in Perpetual Trusts	1,770,850	1,922,478
Total Assets	$ 198,865,815	$ 172,942,643
Liabilities:		
Accounts Payable	$ 1,560,286	$ 547,666
Grants Payable	1,341,508	1,341,508
Accrued Expenses	317,296	324,293
Annuity Obligations	1,173,760	1,051,406
Trust Obligations	1,059,149	1,386,630
Bonds Payable	10,000,000	10,000,000
Total Liabilities	$ 15,451,999	$ 14,651,503
Net Assets:		
Unrestricted	$ 33,365,397	$ 23,585,484
Temporarily Restricted	52,794,315	45,578,714
Permanently Restricted	97,254,104	89,126,942
Total Net Assets	$ 183,413,816	$ 158,291,140
Total Liabilities and Net Assets	$ 198,865,815	$ 172,942,643

See Note A in Notes to Financial Statements

Ball State University

Statement of Revenues, Expenses and Changes in Net Assets

June 30, 2006 and 2005

	2006	2005 Reclassified
Operating Revenues:		
Student Tuition and Fees	$ 137,012,534	$ 129,471,264
Scholarship Allowances (See Note C)	(38,944,407)	(35,051,530)
Net Student Tuition and Fees	$ 98,068,127	$ 94,419,734
Federal Grants and Contracts	21,130,073	21,755,294
State Grants and Contracts	26,028,187	24,707,959
Other Governmental Grants and Contracts	144,444	3,009
Non-Governmental Grants and Contracts (See Note C)	11,528,046	14,047,314
Sales and Services of Educational Departments	10,662,254	9,625,730
Auxiliary Enterprises:		
Residential Life (Net of Scholarships and Allowances: 2006 - $2,507,040; 2005 - $2,728,282)	41,071,661	39,600,852
Other	9,777,894	8,922,522
Other Operating Revenues	1,301,310	969,534
Total Operating Revenues	$ 219,711,996	$ 214,051,948
Operating Expenses:		
Personnel Services (See Note C)	$ 173,126,181	$ 174,934,712
Benefits	62,337,103	57,221,551
Utilities	9,001,371	8,605,251
Repairs and Maintenance	6,244,226	5,203,412
Other Supplies and Expenses	67,584,196	66,343,126
Student Aid	6,130,920	6,353,859
Depreciation	13,774,982	13,753,606
Total Operating Expenses	$ 338,198,979	$ 332,415,517
Operating Income/(Loss)	$ (118,486,983)	$ (118,363,569)
Non-Operating Revenues/(Expenses):		
State Appropriations	$ 134,404,138	$ 135,301,519
Investment Income	6,341,401	7,334,976
Interest on Capital Asset Related Debt	(3,951,353)	(3,772,282)
Private Gifts (See Note C)	3,532,511	2,804,862
Other Non-Operating Income	-	45,637
Net Non-Operating Revenues/(Expenses)	$ 140,326,697	$ 141,714,712
Income Before Other Revenues, Expenses, Gains or Losses	21,839,714	23,351,143
Capital Appropriation	2,621,019	-
Increase in Net Assets	$ 24,460,733	$ 23,351,143
Net Assets – Beginning of Year	515,918,845	501,136,942
Restatement - Correction for Reclassification (See Note B)	-	(8,569,240)
Restatement - Change in Accounting Policy (See Note B)	(42,097,896)	-
Net Assets - Beginning of Year as Restated	$ 473,820,949	$ 492,567,702
Net Assets – End of Year	$ 498,281,682	$ 515,918,845

Ball State University
Foundation

Statement of Activities
Years Ended June 30, 2006 and 2005

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:								
Contributions	$ 849,763	$ 31,875,746	$ 4,350,011	$ 37,075,520	$ 1,042,777	$ 15,170,770	$ 3,344,305	$ 19,557,852
Promotional Activities and Other Revenue	41,658	-	-	41,658	45,491	-	-	45,491
Investment Income	14,670,716	4,211,179	3,039,062	21,920,957	11,821,808	1,772,657	1,645,926	15,240,391
Change in Value of Split-Interest Agreements	153,845	(12,725)	465,817	606,937	23,886	212,006	660,904	896,796
Operating Support Fees	702,936	(186,129)	(516,807)	-	537,602	(152,836)	(384,766)	-
	$ 16,418,918	$ 35,888,071	$ 7,338,083	$ 59,645,072	$ 13,471,564	$ 17,002,597	$ 5,266,369	$ 35,740,530
Net Assets Released from Restrictions	27,883,391	(28,672,470)	789,079	-	7,618,780	(10,702,574)	3,083,794	-
Total Revenues, Gains and Other Support	$ 44,302,309	$ 7,215,601	$ 8,127,162	$ 59,645,072	$ 21,090,344	$ 6,300,023	$ 8,350,163	$ 35,740,530
Expenses:								
University Capital Projects	$ 1,200,000	$ -	$ -	$ 1,200,000	$ 43,425	$ -	$ -	$ 43,425
University Programs	29,167,074	-	-	29,167,074	8,260,803	-	-	8,260,803
Management and General	2,015,593	-	-	2,015,593	1,754,816	-	-	1,754,816
Fund Raising	2,139,729	-	-	2,139,729	2,240,204	-	-	2,240,204
Total Expenses	$ 34,522,396	$ -	$ -	$ 34,522,396	$ 12,299,248	$ -	$ -	$ 12,299,248
Change in Net Assets	$ 9,779,913	$ 7,215,601	$ 8,127,162	$ 25,122,676	$ 8,791,096	$ 6,300,023	$ 8,350,163	$ 23,441,282
Net Assets, Beginning of Year	23,585,484	45,578,714	89,126,942	158,291,140	14,794,388	39,278,691	80,776,779	134,849,858
Net Assets, End of Year	$ 33,365,397	$ 52,794,315	$ 97,254,104	$ 183,413,816	$ 23,585,484	$ 45,578,714	$ 89,126,942	$ 158,291,140

Ball State University

Statement of Cash Flows
Year Ended June 30, 2006

Source /(Uses) of Cash:		
Operating Activities:		
Tuition and Fees	$	98,098,715
Grants and Contracts		73,921,576
Payments to Suppliers		(69,140,166)
Payments for Utilities		(9,001,371)
Payments for Personnel Services		(173,034,476)
Payments for Benefits		(60,748,604)
Payments for Scholarships and Fellowships		(5,625,338)
Auxiliary Enterprise Charges:		
Room and Board		40,668,333
Other		9,432,759
Sales and Services of Educational Activities		10,707,824
Other Receipts/(Disbursements)		4,369,482
Net Cash Provided/(Used) by Operating Activities	$	(80,351,266)
Non-Capital Financing Activities:		
State Appropriations	$	134,404,138
William D. Ford Direct Lending Receipts		52,643,415
William D. Ford Direct Lending Disbursements		(52,643,415)
PLUS Loans Receipts		29,906,984
PLUS Loans Disbursements		(29,906,984)
Private Gifts		3,532,511
Agency Transactions		1,249,293
Net Cash Provided/(Used) by Non-Capital Financing Activities	$	139,185,942
Capital Financing Activities:		
Proceeds from Capital Debt	$	35,425,000
Capital Appropriations		2,621,019
Unamortized Bond Premium		(136,179)
Purchases of Capital Assets		(29,105,131)
Principal Paid on Capital Debt		(4,893,792)
Interest Paid on Capital Debt		(3,515,038)
Deposits with Trustee		(2,999,752)
Net Cash Provided/(Used) by Capital Financing Activities	$	(2,603,873)
Investing Activity:		
Proceeds from Sales and Maturities of Investments	$	917,913,491
Interest on Investments		4,686,726
Purchase of Investments		(954,081,405)
Net Cash Provided/(Used) by Investing Activities	$	(31,481,188)
Net Increase/(Decrease) in Cash	$	24,749,615
Cash – Beginning of the Year	$	53,488,409
Cash – End of the Year		78,238,024
Net Increase/(Decrease) in Cash	$	24,749,615

Ball State University

Statement of Cash Flows
Year Ended June 30, 2006

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

Operating Income/(Loss)	$	(118,486,983)
Adjustments to Reconcile Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Depreciation Expense		13,774,982
Equipment Retired		1,021,823
Changes in Assets and Liabilities:		
Operating Receivables – Net		(3,718,387)
Inventories		(104,683)
Other Assets		69,765
Accounts Payable		5,304,786
Deferred Revenue		4,297,552
Deposits Held for Others		409,844
Compensated Absences		185,802
Change in Advance on Long Term Grants		12,247,158
Change in Long Term State Appropriations Receivable		4,077,063
Loans to Students		570,012
Net Cash Provided/(Used) by Operating Activities	$	(80,351,266)

Ball State University
Foundation

Statement of Cash Flows
Years Ended June 30, 2006 and 2005

		2006		2005
Operating Activities:				
Change in Net Assets	$	25,122,676	$	23,441,282
Items not Requiring/(Providing) Cash:				
Depreciation and Amortization		40,842		35,655
Loss on Disposal of Equipment		-		431
Bad Debt Expense		596,940		545,780
Net Unrealized (Gain)/Loss on Investments		(6,691,413)		(11,143,081)
Net (Gain)/Loss on Sales of Investments		(12,499,078)		(1,860,119)
Contributions of Marketable Equity Securities		(2,240,830)		(1,687,240)
Contributions Restricted for Long-Term Investment		(4,350,011)		(3,344,305)
Contributions of Split-Interest Agreements and Annuities		-		(604,184)
Net Change in Value of Split-Interest Agreements		454,364		1,926,145
Changes In:				
Contributions Receivable, Including Amortization of Discount on Pledges Receivable		(1,225,571)		(3,890,474)
Interest and Dividends Receivable and Other Assets		103,698		89,004
Accounts Payable and Accrued Expenses		1,005,623		(401,642)
Net Cash Provided by Operating Activities	$	317,240	$	3,107,252
Investing Activities:				
Purchase of Property and Equipment	$	(746,784)	$	(358,618)
Purchase of Property Held for Sale		(785,909)		-
Purchase of Investments		(147,760,507)		(170,824,706)
Sales and Maturities of Investments		143,938,286		164,141,344
Note Receivable		766,821		753,681
Net Increase in Cash Surrender Value of Life Insurance		(62,571)		(35,417)
Net Cash Used in Investing Activities	$	(4,650,664)	$	(6,323,716)
Financing Activities:				
Proceeds from Contributions Restricted for Investment in Permanent Endowment	$	4,350,011	$	3,344,305
Net Increase/(Decrease) in Cash	$	16,587	$	127,841
Cash – Beginning of the Year		214,262		86,421
Cash – End of the Year	$	230,849	$	214,262
Interest Paid	$	423,469	$	223,910

See Note A in Notes to Financial Statements

Ball State University
Notes to Financial Statements
June 30, 2006

<u>Note A – Significant Accounting Policies</u>

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
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, Ball State University Foundation donations and state appropriations are considered to be non-operating revenue.

Student Tuition and Fees

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

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 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, 2006, and June 30, 2005, were $3,253,192 and $3,521,446 respectively for accounts receivable. For notes receivable, the reserves were $1,546,147 and $1,569,147 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.

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, 2006, the foundation distributed $11,728,509 for both restricted and unrestricted purposes of the University. $1,200,000 of that amount was the appraised value of certain real estate transferred to and capitalized by the University. $7,638,219 of that amount is reflected as revenue and expense in University reporting and the balance of $2,890,290 is reflected as expense solely in the Foundation's reporting. Additionally, the foundation reported as income and expense $19,979,940 which was the proceeds of a grant from the Lilly Endowment that were transferred to the University. In accordance with the University's reporting standards, $18,874,512 of that amount is recorded as Deferred Income and Advances on Long Term Grants. Only the $1,105,428 which was expended during the fiscal year ended June 30, 2006, was reported as income. 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 – Restatement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

The University has consistently reported the net assets of the Federal Perkins Loan Program as part of its net assets. This program is funded by a combination of institutional capital contributions (ICC) and federal capital contributions (FCC). The FCC will ultimately be returned to the federal government if the institution ceases making loans or has excess cash. Although this event may be unlikely, the FCC should be classified as a long term liability. The ICC has been conservatively calculated to be $1,500,000 and that amount remains in net assets. The beginning net asset balance, restricted and expendable for loans, for the year ended June 30, 2005, has been reduced by $8,569,240. The $8,826,673 liability for the FCC as of June 30, 2005, has been recorded. In the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005, certain operating revenue and expense lines have also been restated. All financial activity related to the loan program is now treated as adjustments to the long term liability.

At June 30, 2005, Net Assets, Invested in Capital Assets, Net of Related Debt, included $17,942,712 which represented funds which had not yet been expended but which were restricted by bond indentures or state appropriations for construction. Those funds have been reclassified to Expendable Net Assets, Restricted for Construction and the reported balances have been restated from those originally reported.

As of June 30, 2006, there was a change in accounting policy regarding the treatment of the library collection. Previously the collection items had been deemed to retain their full value if they were still on hand and were not depreciated. The new policy treats all purchases as expense rather than capital expenditures. Capital Assets, Net and Net Assets, Invested in Capital Assets, Net of Related Debt as of June 30, 2006, have been reduced by the reported value of the library collection at June 30, 2005, $42,097,896, in conjunction with that change.

Note C – Reclassifications

In the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005, two reclassifications have been made: 1) $7,680,139 of fee waivers for Graduate Assistants and Doctoral Fellows was included in reported scholarship allowances. That amount has been reclassified and is now shown as part of Personnel Services Operating Expenses. and 2) $2,804,862 of gift income that had been classified under Non-Governmental Grants and Contracts has been reclassified and is now shown as Private Gift revenue under the Non-Operating Revenues/(Expenses).

Note D – 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 personnel assigned on a fiscal year basis are eligible to receive pay for two-thirds of their accumulated unused sick leave, up to a maximum of 480 hours for non-exempt staff personnel and 60 days for exempt staff personnel if they qualify for retirement status.

Note E – Capital Assets

	Book Value July 1, 2005 (as restated, See Note B)	Additions	Deductions	Book Value June 30, 2006
Land	$ 10,499,896	$ 812,378	$ -	$ 11,312,274
Land Improvements	29,330,644	1,494,951	-	30,825,595
Infrastructure	14,397,837	-	-	14,397,837
Educational Buildings	279,008,010	2,610,119	145,785	281,472,344
Utility Buildings	15,138,801	300	-	15,139,101
Educational Equipment	47,065,552	3,774,703	7,885,396	42,954,859
Auxiliary Enterprise Buildings	158,423,077	2,917,359	99,996	161,240,440
Auxiliary Enterprise Equipment	11,347,295	340,244	158,371	11,529,168
Construction in Process	4,405,481	16,391,695	-	20,797,176
Other Property	1,391,275	-	-	1,391,275
Total	$ 571,007,868	$ 28,341,749	$ 8,289,548	$ 591,060,069
Less Accumulated Depreciation:				
Infrastructure	$ 2,942,464	$ 287,954	$ -	$ 3,230,418
Educational Buildings	90,598,874	5,565,668	83,143	96,081,399
Utility Buildings	6,450,083	302,781	-	6,752,864
Educational Equipment	36,396,043	3,847,926	7,795,259	32,448,710
Auxiliary Enterprise Buildings	64,269,799	3,166,665	20,000	67,416,464
Auxiliary Enterprise Equipment	9,428,048	603,094	132,707	9,898,435
Other Property	34,704	900	-	35,604
Total	$ 210,120,015	$ 13,774,988	$ 8,031,109	$ 215,863,894
Capital Assets, Net	$ 360,887,853	$ 14,566,761	$ 258,439	$ 375,196,175

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.

Note F – Notes Payable

A loan agreement in the amount of $1,500,000 dated June 1, 2006, was executed in order to refinance an earlier note payable in the amount of $1,500,000. The proceeds from the original note provided interim financing for the construction and renovation of surface parking areas on campus. The loan is with Mutual Federal Savings Bank, Muncie, Indiana and is due on June 1, 2008. Interest payments are due semi-annually and the expense will be $59,550 in the fiscal year ended June 30, 2007 and $54,588 in the fiscal year ended June 30, 2008.

Note G – 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 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.

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

The bond payable liability reported in the Statement of Net Assets includes premiums received on certain bond series. The premiums are being amortized over the life of each series and reduce the recorded interest expense.

	Long Term Liability			
	June 30, 2006		June 30, 2005	
	Current Portion	Noncurrent Portion	Current Portion	Noncurrent Portion
Interim Loan Payable	$ -	$ 1,500,000	$ -	$ 1,500,000
Outstanding Bonds Payable	6,854,881	117,840,147	4,877,243	89,270,028
Unamortized Premiums on Bonds	-	3,374,072	-	2,533,645
Capitalized Interest on Parking Bonds	-	590,573	-	737,270
Total	$ 6,854,881	$ 123,304,792	$ 4,877,243	$ 94,040,943

Long term bonds outstanding at June 30, 2006, were:

	Date of Issue	Original Issue	Retired 2005-2006	Outstanding June 30, 2006
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	112,243	380,028
Parking System Revenue Bonds of 2003:				
Current Interest, 2.00% to 5.00%	08/14/03	3,985,000	60,000	3,865,000
Term Bonds, 4.75%	08/14/03	2,510,000	-	2,510,000
Housing and Dining System Revenue Bonds of 2006,				
Current Interest, 3.50% to 5.00%	01/19/06	35,425,000	-	35,425,000
Student Fee Bonds, Series H,				
Current Interest, 2.75% to 6.25%	11/01/92	43,005,000	1,315,000	920,000
Student Fee Bonds, Series I,				
Current Interest, 3.25% to 5.00%	01/01/99	38,770,000	2,220,000	24,340,000
Student Fee Bonds, Series K:				
Current Interest, 4.00% to 4.60%	01/03/02	5,700,000	665,000	3,780,000
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	505,000	15,920,000
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
		$ 187,020,942	$ 4,877,243	$ 124,695,028

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
2007	$ 6,854,881	$ 5,754,457
2008	6,048,003	5,623,560
2009	6,271,575	5,393,676
2010	6,520,569	5,147,845
2011	6,920,000	4,628,398
2012-2016	35,420,000	18,189,035
2017-2021	30,410,000	10,324,374
2022-2026	26,250,000	2,855,599
Total	$ 124,695,028	$ 57,916,944

Note H – 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.

At June 30, 2006, the unpaid principal for the defeased Building Facilities Fee Bonds was $24,261,764.

Note I – Investments

Investments held in the name of the University at June 30, 2006, consisted of the following:

	Market
U.S. Government Agency Securities	$ 162,305,900
Certificates of Deposit	106,299,940
Commercial Paper	3,497,585
Equity Securities (Endowment Funds only)	603,690
Total	$ 272,707,115

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

> 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, 2006, the above listed investments included certificates of deposit with Irwin Union Bank & Trust Co., Columbus, Indiana of $40,250,000 and with First Merchants Bank, Muncie, Indiana of $40,479,940. 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 $10,157,535 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:					
Government Agencies	$ 162,305,900	$ 2,982,450	$ 4,393,500	$ 154,929,950	$ -
Certificates of Deposit	106,299,940	89,320,000	2,106,070	14,873,870	-
Commercial Paper	3,497,585	3,497,585	-	-	-
Equity Securities (Endowment Funds Only)	603,690	-	-	-	603,690
Total Investments	$ 272,707,115	$ 95,800,035	$ 6,499,570	$ 169,803,820	$ 603,690

Note J – 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, 2006, there were 1,280 employees participating in PERF with an annual pay equal to $41,186,832.

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	$ 1,787,068
Interest on Net Pension Obligation	(126,061)
Adjustment to Annual Required Contribution	143,657
Annual Pension Cost	$ 1,804,664
Contributions Made	1,590,135
Increase/(Decrease) in Net Pension Obligation	$ 214,529
Net Pension Obligation, July 1, 2004	(1,738,776)
Net Pension Obligation, June 30, 2005	$ (1,524,247)

Contribution Rates:	
University	4.50%
Plan Members (paid by BSU)	3.00%
Actuarial Valuation Date	6/30/2005
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
2003	$ 2,171,831	98.00%	$ (948,511)
2004	$ 1,538,949	100.00%	$ (1,738,776)
2005	$ 1,804,664	88.11%	$ (1,524,247)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Accrued Liability (AL)	Excess/ (Unfunded) AL	Funded Ratio
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%
07/01/2005	$ 51,392,225	$ 52,434,812	$ (1,042,587)	98.00%

Date	Covered Payroll	Excess/ (Unfunded) AL as a Percent of Covered Payroll
07/01/2003	$ 40,891,755	12.80%
07/01/2004	$ 41,363,222	6.90%
07/01/2005	$ 41,584,121	(2.51%)

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, 2006, there were 471 employees participating in TRF with annual pay equal to $26,304,148. The University contributes at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7.00 percent of covered payroll. The University’s contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were $2,637,012, $2,692,398, and $2,691,779, 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, 2006, the University contributed $9,552,877 to this plan for 1,309 participating employees with annual payroll totaling $77,853,930.

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, 2006, $396,200 is recorded as a liability representing payments to be made in 2006 and 2007 to employees who retired under the program by June 30, 2006.

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, 2006, approximately 1,609 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, 2006, including the employees' and retirees' (25 percent) and University's (75 percent) share, totaled $41,147,326. 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 $7,296,482 for the year ended June 30, 2006.

The trust fund established for the sole purpose of funding future retiree health care had the following activity for the year ended June 30, 2006:

Market Value at July 1, 2005	$	106,573,912
Transfer from Health Care Auxiliary		6,433,000
Reinvested Net Earnings		3,911,522
Unrealized Gain (Loss)		8,738,888
Fund Balance at June 30, 2006	$	125,657,322

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 $168.1 million as of June 30, 2006. 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 trust fund 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 $20.0 million as of June 30, 2006. Following is a summary of the life insurance continuance fund for the year ended June 30, 2006.

Fund Balance at July 1, 2005	$ 21,098,726
Reinvested Net Earnings	714,104
Unrealized Gain (Loss)	1,662,294
Less Death Claims and Related Charges	752,967
Fund Balance at June 30, 2006	$ 22,722,157

These funds cannot under any circumstances revert to the University.

Note K – 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 L – 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. The fraternity house is currently vacant. A recent appraisal shows the value of the property is greater than outstanding liens.

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 M – Risk Management

The University is exposed to risks of loss related to:

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

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

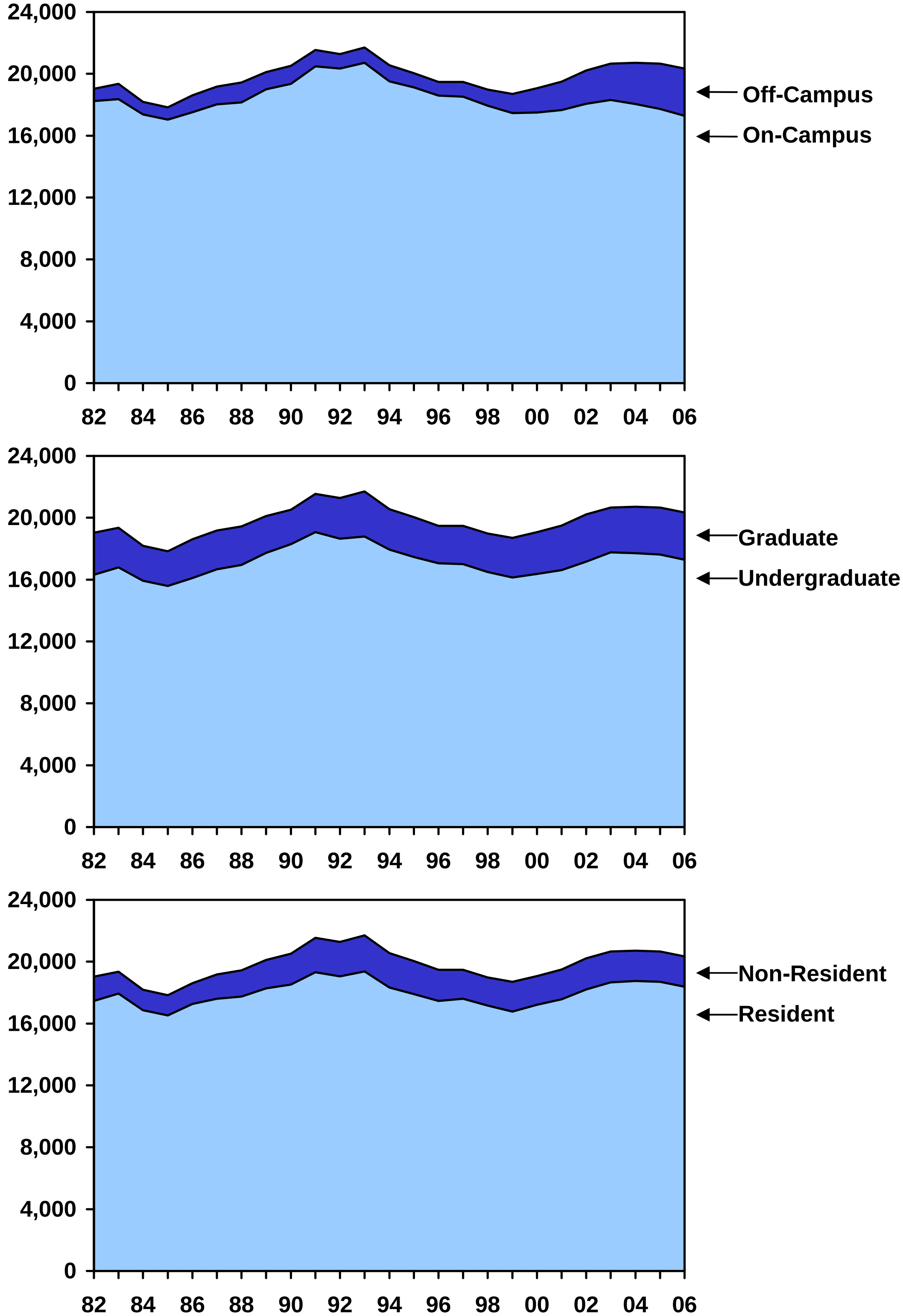
Separate funds and accounts have been established to measure the results of the various combinations of risk retention and commercial insurance. Periodically (in some cases annually), after reviewing exposures with insurance consultants and actuaries, adjustments are made to reflect potential liabilities arising from risk retention. The University accounts for incurred, but not reported, health care claims by calculating an amount based on a review of applicable claims submitted after year end, as well as past experience. This estimated liability was $4.078 million at June 30, 2006. Claims activity for the year was as follows:

Unpaid health care claims at July 1, 2005	$ 3,355,000
Claims incurred	35,936,930
Claims paid	35,213,930
Unpaid health care claims at June 30, 2006	$ 4,078,000

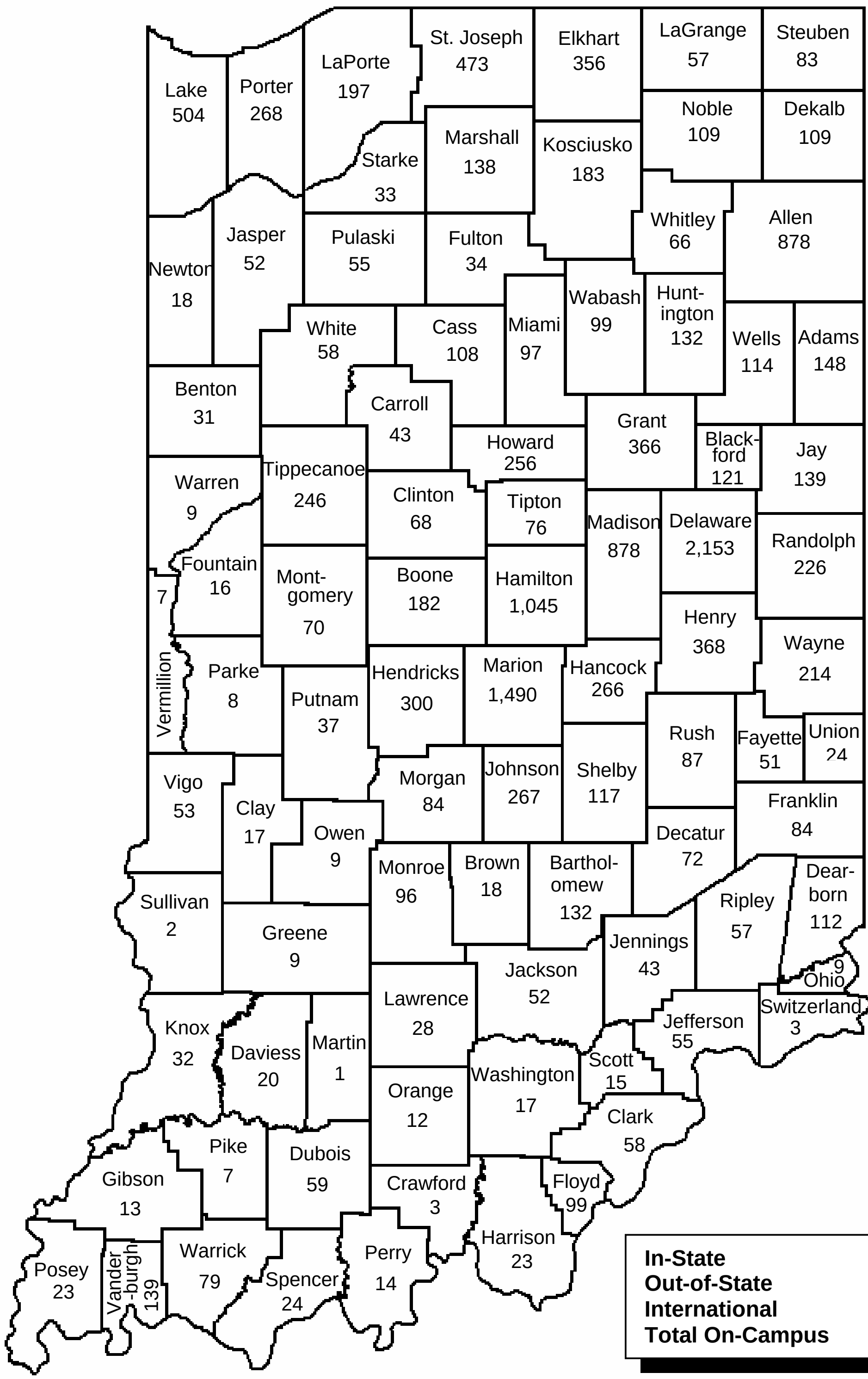
Supplemental Information

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 1982-2006

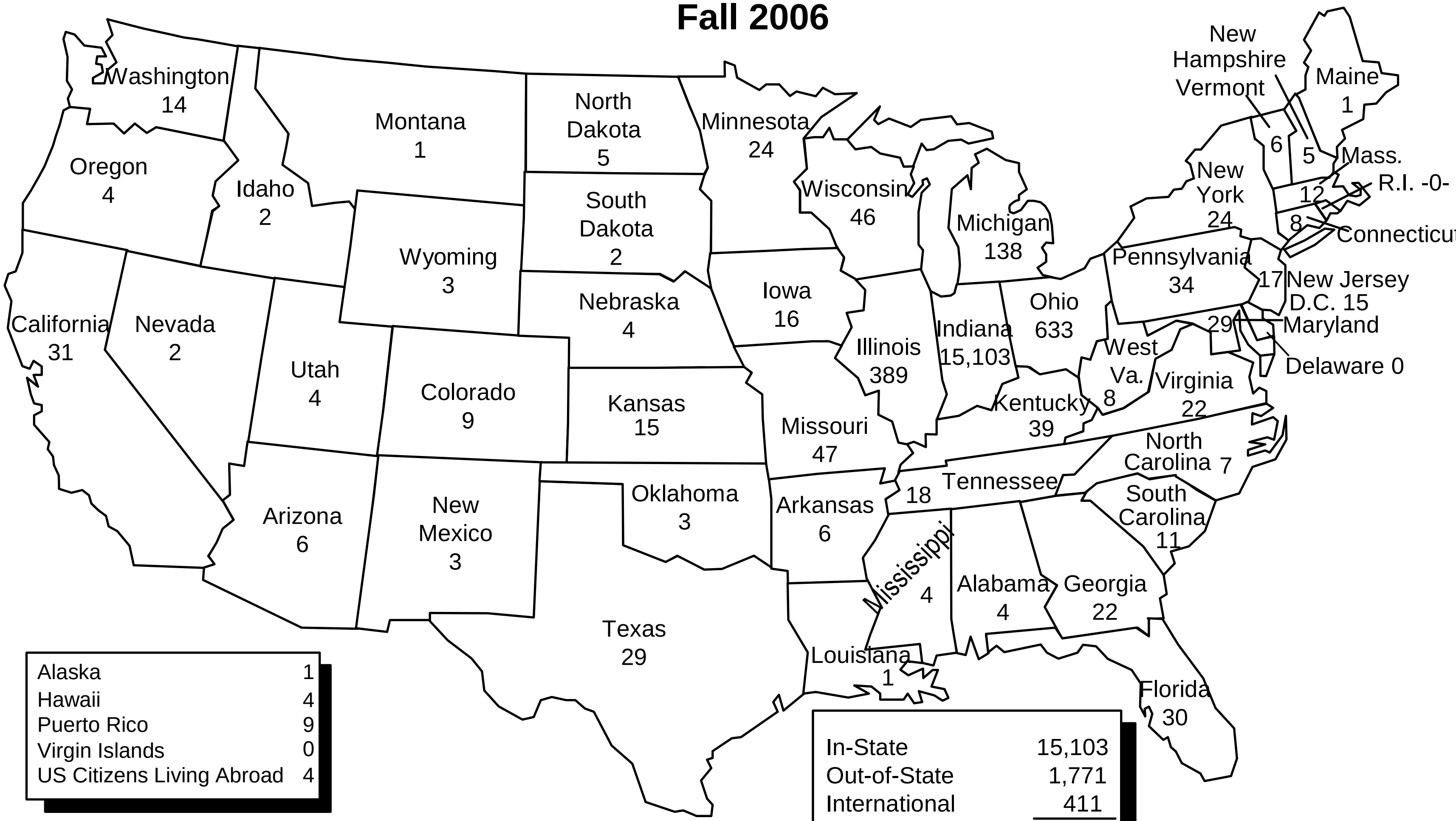


Campus Enrollment by County
Fall 2006



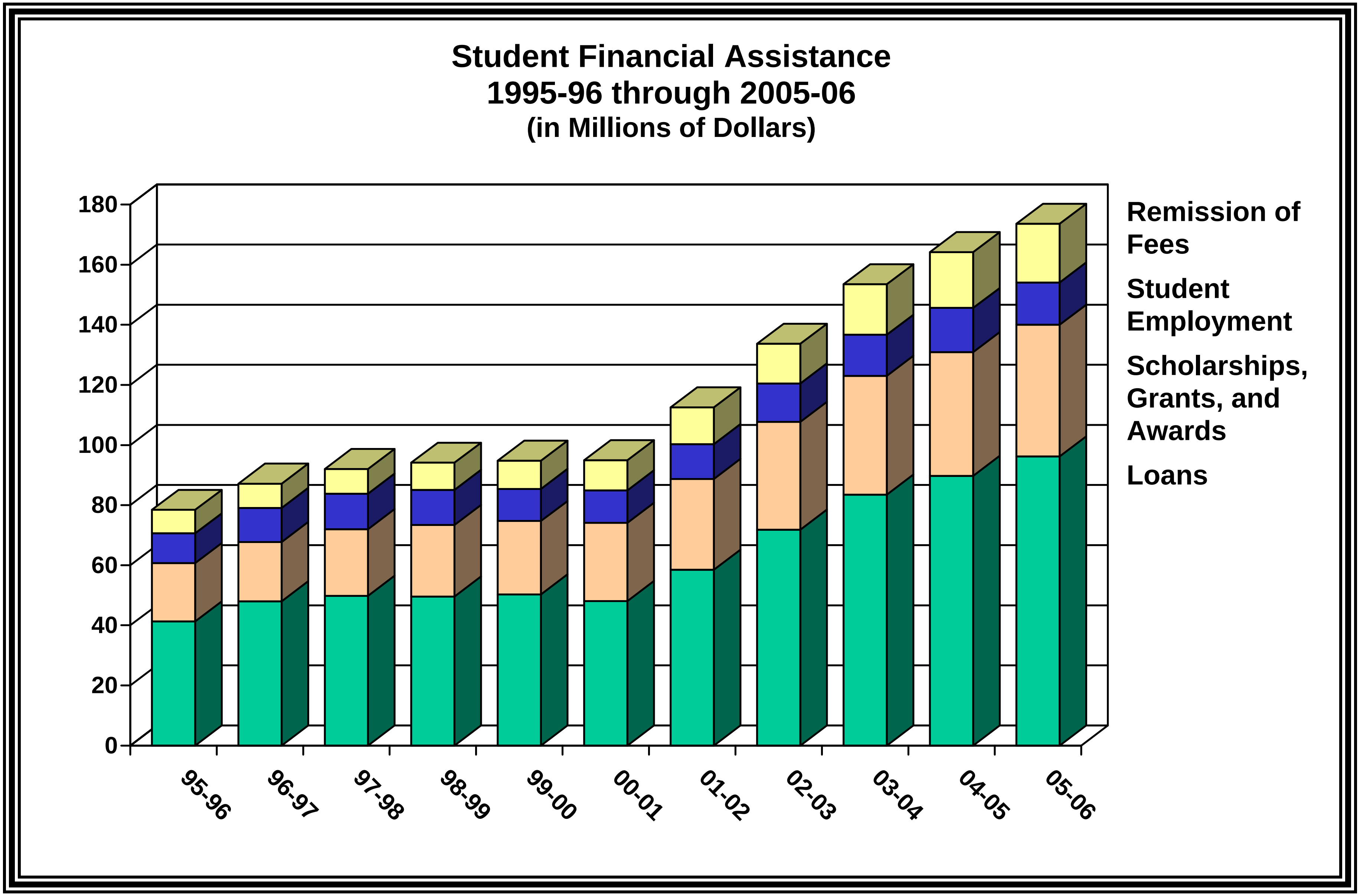
In-State	**15,103**
Out-of-State	**1,771**
International	**411**
Total On-Campus	**17,285**

Campus Enrollment by State
Fall 2006



Alaska	1
Hawaii	4
Puerto Rico	9
Virgin Islands	0
US Citizens Living Abroad	4

In-State	15,103
Out-of-State	1,771
International	411
Total On Campus	17,285


Student Financial Assistance
1995-96 through 2005-06
(in Millions of Dollars)
180
160
140
120
100
80
60
40
20
0
95-96
96-97
97-98
98-99
99-00
00-01
01-02
02-03
03-04
04-05
05-06
Remission of Fees
Student Employment
Scholarships, Grants, and Awards
Loans

Ball State University

Schedule of Annual Requirements for Principal and Interest

Revenue Bonds—Parking Facilities

Year Ended June 30, 2006

June 30	Principal	Interest	Total	Unliquidated Balance
2006				$ 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	184,363	569,363	3,765,000
2018	400,000	166,700	566,700	3,365,000
2019	420,000	148,250	568,250	2,945,000
2020	435,000	129,013	564,013	2,510,000
2021	455,000	108,419	563,419	2,055,000
2022	480,000	86,213	566,213	1,575,000
2023	500,000	62,938	562,938	1,075,000
2024	525,000	38,594	563,594	550,000
2025	550,000	13,063	563,063	-
Total	$ 6,755,028	$ 4,467,551	$ 11,222,579	

Housing and Dining Bonds

Year Ended June 30, 2006

June 30	Principal	Interest	Total	Unliquidated Balance
2006				$ 35,425,000
2007	$ 1,265,000	$ 1,411,825	$ 2,676,825	34,160,000
2008	1,190,000	1,488,636	2,678,636	32,970,000
2009	1,240,000	1,440,036	2,680,036	31,730,000
2010	1,285,000	1,392,749	2,677,749	30,445,000
2011	1,335,000	1,344,396	2,679,396	29,110,000
2012	1,385,000	1,290,830	2,675,830	27,725,000
2013	1,445,000	1,234,230	2,679,230	26,280,000
2014	1,500,000	1,175,330	2,675,330	24,780,000
2015	1,570,000	1,106,080	2,676,080	23,210,000
2016	1,650,000	1,025,580	2,675,580	21,560,000
2017	1,735,000	940,955	2,675,955	19,825,000
2018	1,815,000	861,280	2,676,280	18,010,000
2019	1,900,000	777,480	2,677,480	16,110,000

Housing and Dining Bonds

Year Ended June 30, 2006

June 30	Principal	Interest	Total	Unliquidated Balance
2020	1,990,000	688,190	2,678,190	14,120,000
2021	2,085,000	594,275	2,679,275	12,035,000
2022	2,190,000	487,400	2,677,400	9,845,000
2023	2,300,000	375,150	2,675,150	7,545,000
2024	2,410,000	267,944	2,677,944	5,135,000
2025	2,515,000	164,794	2,679,794	2,620,000
2026	2,620,000	55,675	2,675,675	-
Total	$ 35,425,000	$ 18,122,835	$ 53,547,835	

Student Fee Bonds

Year Ended June 30, 2006

June 30	Principal	Interest	Total	Unliquidated Balance
2006				$ 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
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	$ 82,515,000	$ 35,326,558	$ 117,841,558	

Ball State University

Schedule of Annual
Requirements for Principal and Interest

Total Revenue and Student Fee Bonds

Year Ended June 30, 2006

June 30	Principal	Interest	Total	Unliquidated Balance
2006				124,695,028
2007	$ 6,854,881	$ 5,754,457	$ 12,609,338	117,840,147
2008	6,048,003	5,623,560	11,671,563	111,792,144
2009	6,271,575	5,393,676	11,665,251	105,520,569
2010	6,520,569	5,147,845	11,668,414	99,000,000
2011	6,920,000	4,628,398	11,548,398	92,080,000
2012	7,225,000	4,322,050	11,547,050	84,855,000
2013	7,555,000	3,984,591	11,539,591	77,300,000
2014	7,500,000	3,635,124	11,135,124	69,800,000
2015	7,085,000	3,286,294	10,371,294	62,715,000
2016	6,055,000	2,960,976	9,015,976	56,660,000
2017	5,485,000	2,667,432	8,152,432	51,175,000
2018	5,760,000	2,382,337	8,142,337	45,415,000
2019	6,065,000	2,081,968	8,146,968	39,350,000
2020	6,380,000	1,764,148	8,144,148	32,970,000
2021	6,720,000	1,428,489	8,148,489	26,250,000
2022	5,525,000	1,112,464	6,637,464	20,725,000
2023	5,805,000	826,489	6,631,489	14,920,000
2024	6,100,000	536,526	6,636,526	8,820,000
2025	4,595,000	288,332	4,883,332	4,225,000
2026	4,225,000	91,788	4,316,788	-
Total	$ 124,695,028	$ 57,916,944	$ 182,611,972	

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