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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

BALL STATE UNIVERSITY

MUNCIE, INDIANA

July 1, 2007 to June 30, 2008

FILED
03/05/2009

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SCHEDULE OF OFFICIALS

Office	Official	Term
President	Dr. Jo Ann M. Gora	08-08-04 to 06-30-09
Vice President, Business Affairs and Treasurer	Thomas J. Kinghorn	10-01-80 to 06-30-09
Associate Vice President, Finance and Assistant Treasurer	Dr. Randall B. Howard	09-01-06 to 06-30-09
Associate Vice President, Business Services and Controller	William A. McCune	07-15-91 to 06-30-09
President of the Board of Trustees	Thomas L. DeWeese	01-01-96 to 06-30-09

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Ball State University (University), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the University's Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

State Board of Accounts

October 23, 2008

STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF BALL STATE UNIVERSITY, DELAWARE COUNTY, INDIANA

Compliance

We have audited the compliance of Ball State University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The University's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

We have audited the basic financial statements of Ball State University as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the University's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

State Board of Accounts

February 16, 2009

BALL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Identification Number When No CFDA Number	Total Federal Awards Expended	Amounts Passed-Through To Subrecipients	Questioned Costs
Student Financial Aid Cluster					
U.S. DEPARTMENT OF EDUCATION					
Federal Supplemental Education Opportunity Grant	84.007		$ 1,075,683	$ -	$ -
Federal Work-Study Program	84.033		779,142	-	-
Federal Pell Grant Program	84.063		10,805,787	-	-
Academic Competitiveness Grants	84.375		855,401	-	-
National Science and Mathematics to Retain Talent (SMART) Grant	84.376		134,506	-	-
Total U.S. Department of Education			13,650,519	-	-
Total Student Financial Aid Cluster			13,650,519	-	-
Research and Development Cluster					
U.S. DEPARTMENT OF AGRICULTURE					
Modeling Bat Distribution	10.XXX		14,872	-	-
U.S. DEPARTMENT OF DEFENSE					
Issue of Department of Defense Excess Equipment	12.000		42,623	-	-
Basic Scientific Research	12.431		2,893	-	-
Pass-Through United States Army:					
Basic , Applied, and Advanced Research in Science and Engineering	12.630		379,402	37,933	-
Total U.S. Department of Defense			424,918	37,933	-
U.S. DEPARTMENT OF THE INTERIOR					
Pass-Through Indiana Department of Natural Resources:					
Abandoned Mine Lane Reclamation	15.252		430	-	-
Sport Fish Restoration	15.605		165,738	-	-
Historic Preservation Fund Grants-In-Aid	15.904		39	-	-
Pass-Through Purdue University:					
Assistance to State Water Resources Research Institutes	15.805		10,776	-	-
Total U.S. Department of the Interior			176,983	-	-
U.S. DEPARTMENT OF JUSTICE					
Grants to Reduce Violent Crimes Against Women on Campus	16.525		54,453	-	-
U.S. DEPARTMENT OF STATE					
Education Exchange - University Lecturers (Professors) and Research Scholars	19.401		13,178	-	-
U.S. DEPARTMENT OF TRANSPORTATION					
Pass-Through Indiana Department of Transportation:					
Highway Planning and Construction	20.205		82,530	-	-
Construction-Differential Subsidies	20.800		7,667	-	-
Total U.S. Department of Transportation			90,197	-	-
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Aerospace Education Services Program	43.AAA		291,420	-	-
Pass-Through Indiana University:					
Aerospace Education Services Program	43.AAA		35,200	-	-
Pass-Through Marquette University:					
Aerospace Education Services Program	43.AAA		36,337	-	-
Pass-Through Purdue University:					
Aerospace Education Services Program	43.AAA		25,417	-	-
Pass-Through Texas Tech University:					
Aerospace Education Services Program	43.AAA		(2,397)	-	-
Total National Aeronautics and Space Administration			385,977	-	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BALL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008
(Continued)

Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Identification Number When No CFDA Number	Total Federal Awards Expended	Amounts Passed-Through To Subrecipients	Questioned Costs
U.S. NATIONAL FOUNDATION OF ARTS AND THE HUMANITIES					
Promotion of the Humanities-Fellowships and Stipends	45.160		4,991	-	-
Pass-Through Indiana Humanities Council:					
Promotion of the Humanities - Federal/State Partnership	45.129		3,000	-	-
Pass-Through Indiana State Library:					
Grants to States	45.310		(12,498)	-	-
Total National Foundation of Arts and the Humanities			(4,507)	-	-
NATIONAL SCIENCE FOUNDATION					
Engineering Grants	47.041		(2,160)	-	-
Mathematical and Physical Sciences	47.049		30,357	-	-
Geosciences	47.050		33,042	-	-
Social, Behavioral, and Economic Sciences	47.075		37,959	-	-
Education and Human Resources	47.076		5,574	-	-
International Science and Engineering (OISE)	47.079		11	-	-
Pass-Through Purdue University:					
Mathematical and Physical Sciences	47.049		62,362	-	-
Education and Human Resources	47.076		68,362	-	-
Pass-Through Indiana University:					
Biological Sciences	47.074		88,261	-	-
Total National Science Foundation			323,768	-	-
U.S. ENVIRONMENTAL PROTECTION AGENCY					
P3 Award: National Student Design Competition for Sustainability	66.516		8	-	-
Pass-Through New Jersey Meadowlands Commission:					
New Jersey Meadowlands Commission Wetlands	66.XXX		1,791	-	-
Pass-Through Delaware County, Indiana:					
NonPoint Source Implementation Grants	66.460		20,625	3,524	-
Total U.S. Environmental Protection Agency			22,424	3,524	-
U.S. DEPARTMENT OF ENERGY					
State Energy Program	81.041		23,657	-	-
Office of Science Financial Assistance Program	81.049		213,686	-	-
Renewable Energy Research and Development	81.087		105,182	-	-
Total U.S. Department of Energy			342,525	-	-
U.S. DEPARTMENT OF EDUCATION					
Overseas-Group Projects Abroad	84.021A		68,608	-	-
Fund for the Improvement of Postsecondary Education	84.116M		54,389	8,155	-
Fund for the Improvement of Postsecondary Education	84.116Z		160,184	-	-
Fund for the Improvement of Education	84.215X		329,492	-	-
Foreign Language Assistance	84.293		83,474	-	-
Pass-Through Ivy Tech Community College:					
Vocational Education-Basic Grants to States	84.048		725	-	-
Pass-Through Indiana Department of Education:					
Special Education-Grants to States	84.027A		1,020,953	141,599	-
Special Education-Technical Assistance on State Data Collection	84.373X		277,232	234,113	-
Pass-Through Madison Consolidated School District:					
Fund for the Improvement of Education	84.215X		122,327	-	-
Pass-Through Indiana Commission on Higher Education:					
Improving Teacher Quality State Grants	84.367		5,664	-	-
Improving Teacher Quality State Grants	84.367A		155,233	-	-
Pass-Through Indiana University:					
State Improvement Grant	84.323A		109,169	-	-
Pass-Through Delaware County Family Services:					
Twenty First Century Community Learning Center	84.287C		5,269	-	-
Total U.S. Department of Education			2,392,719	383,867	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BALL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008
(Continued)

Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Identification Number When No CFDA Number	Total Federal Awards Expended	Amounts Passed-Through To Subrecipients	Questioned Costs
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Academic Research Enhancement Award	93.900		25,872	-	-
Cancer Treatment Research	93.395		(965)	-	-
Heart and Vascular Diseases Research	93.837		38,121	-	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		91,898	-	-
Biomedical Research and Research Training	93.859		39,583	-	-
Aging Research	93.866		265,012	-	-
Pass-Through Purdue University:					
Injury Prevention and Control Research and State and Community Based Programs	93.136		1,950	-	-
Pass-Through Indiana State Department of Health:					
Center for Disease Control and Prevention Investigations and Technical Assistance	93.283		771,174	56,899	-
Pass-Through Boston University:					
Research Related to Deafness and Communication Disorders	93.173		87,689	-	-
Pass-Through Indiana Family and Social Services:					
Academic Research Enhancement Award	93.575		19,976	12,440	-
Pass-Through Indiana Department of Child Services:					
Chafee Foster Care Independence Program	93.674		276,202	-	-
Pass-Through Indiana Family and Social Services:					
Chafee Foster Care Independence Program/Promoting Safe and Stable Families/Child Welfare Services-State Grants	93.674, 93.556, 93.645		141,013	-	-
Pass-Through Indiana University:					
Diabetes, Endocrinology and Metabolism Research	93.847		14,739	-	-
Pass-Through University of California Santa Cruz:					
Aging Research	83.866		8,220	-	-
Total U.S. Department of Health and Human Services			1,780,484	69,339	-
Total Research and Development Cluster			6,017,991	494,663	-
Highway Safety Cluster					
U.S. DEPARTMENT OF TRANSPORTATION					
Pass-Through Indiana Criminal Justice Institute:					
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		2,848	-	-
Total Highway Safety Cluster			2,848	-	-
Special Education (IDEA) Cluster					
U.S. DEPARTMENT OF EDUCATION					
Pass-Through Indiana Department of Education:					
Special Education - Grants to States	84.027A		1,266,281	-	-
Total Special Education Cluster			1,266,281	-	-
CCDF Cluster					
U.S. DEPARTMENT OF EDUCATION					
Pass-Through Indiana Department of Education:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		42,106	-	-
Total Special Education Cluster			42,106	-	-
Homeland Security Cluster					
U.S. DEPARTMENT OF EDUCATION					
Pass-Through Indiana Department of Homeland Security:					
State Domestic Preparedness Equipment Support Program	97.004		9,341	-	-
Total Special Education Cluster			9,341	-	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BALL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008
(Continued)

Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Identification Number When No CFDA Number	Total Federal Awards Expended	Amounts Passed-Through To Subrecipients	Questioned Costs
Other Programs					
U.S. DEPARTMENT OF COMMERCE					
Public Telecommunications Facilities and Construction	11.550		(1,201)	-	-
Total U.S. Department of Commerce			(1,201)	-	-
U.S. DEPARTMENT OF DEFENSE					
Basic Scientific Research	12.431		1,496	-	-
Total U.S. Department of Defense			1,496	-	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Community Development Block Grants/Brownsfields Economic Development Initiative	14.246		24,022	-	-
Pass-Through Indiana Office of Community and Rural Affairs:					
Community Development Block Grants/State's Program	14.228		15,810	-	-
Total U.S. Department of Housing and Urban Development			39,832	-	-
U.S. DEPARTMENT OF INTERIOR					
Pass-Through Indiana Department of Natural Resources:					
Historic Preservation Fund Grants-In-Aid	15.904		157,006	-	-
Total U.S. Department of Interior			157,006	-	-
NATIONAL ENDOWMENT FOR THE HUMANITIES					
Pass-Through Indiana Humanities Council:					
Promotion of the Humanities - Federal/State Partnership	45.129		9,431	-	-
Total National Aeronautics and Space Administration			9,431	-	-
U.S. NATIONAL FOUNDATION OF ARTS AND THE HUMANITIES					
Institute of Museum & Library Services	45.301		139,354	-	-
Pass-Through Indiana Arts Commission:					
Promotion of the Arts - Partnership Agreements	45.025		1,830	-	-
Pass-Through State of Indiana Library:					
Grants to States	45.310		34,205	-	-
Total National Foundation of Arts and the Humanities			175,389	-	-
NATIONAL SCIENCE FOUNDATION					
Education and Human Resources	47.076		(19)	-	-
Pass-Through American Physical Society:					
Mathematical and Physical Sciences	47.049		(16,507)	-	-
Total National Science Foundation			(16,526)	-	-
U.S. DEPARTMENT OF EDUCATION					
Fund for the Improvement of Postsecondary Education	84.116N		82,831	12,303	-
Javits Gifted and Talented Students Education Grant Program	84.206A		377,283	47,663	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A		746,751	367,517	-
Pass-Through Ivy Tech Community College:					
Vocational Education-Basic Grants to States	84.048		17,842	-	-
Pass-Through Indiana Department of Workforce Development:					
Vocational Education-Basic Grants to States	84.048		7,484	-	-
Tech-Prep Education	84.243		6,090	-	-
Pass-Through Indiana Department of Education:					
Vocational Education-Basic Grants to States	84.048		95,306	-	-
Safe and Drug Free Schools and Communities-State Grants	84.186		325	-	-
National Baseball Hall of Fame and Museum Desert Diamond	84.215K		(31,238)	-	-
State Grants for Innovative Programs	84.298		379	-	-
Improving Teacher Quality State Grants	84.367		22,557	-	-
Pass-Through Center for Mental Health:					
Independent Living - State Grants	84.169A		37,448	-	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BALL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008
(Continued)

Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Identification Number When No CFDA Number	Total Federal Awards Expended	Amounts Passed-Through To Subrecipients	Questioned Costs
U.S. DEPARTMENT OF EDUCATION (continued)					
Pass-Through Greenfield Central School Corporation:					
Mathematics and Science Partnerships	84.366		16,509	-	-
Pass-Through Muncie Community School Corporation:					
Mathematics and Science Partnerships	84.366B		23,649	-	-
Pass-Through National Writing Project Corporation:					
National Writing Project	84.928A		81,889	-	-
Total U.S. Department of Education			1,485,105	427,483	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Advanced Education Nursing Traineeships	93.358		71,037	-	-
Pass-Through Head Start Action, Inc.:					
Head Start	93.600		1,322	-	-
Total U.S. Department of Health and Human Services			72,359	-	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					
Pass-Through Midwest Campus Compact M3C Fellows:					
AmeriCorps	94.006		(589)	-	-
Pass-Through Indiana Campus Compact/Indiana University:					
AmeriCorps	94.006		11,292	-	-
Total Corporation For National and Community Service			10,703	-	-
DEPARTMENT OF HOMELAND SECURITY					
Disaster Grants - Public Assistance (Presidential Declared Disasters)	97.036		21,609	-	-
Competitive Training Grants	97.068		255,429	-	-
Pass-Through Indiana Department of Homeland Security:					
Disaster Grants - Public Assistance (Presidential Declared Disasters)	97.036		31,012	-	-
Total Department of Homeland Security			308,050	-	-
Total Other Programs			2,241,644	427,483	-
Total Federal Awards			$ 23,230,730	$ 922,146	$ -

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BALL STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of Ball State University (University) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The purpose of the Schedule is to present a summary of those activities of the University for the year ended June 30, 2008, which have been financed by the U.S. Government (federal awards). For purposes of the Schedule, federal awards include all federal assistance and procurement relationships entered into directly between the University and the federal government, and sub-awards from agencies of the State of Indiana and others made under federally sponsored agreements. Because the Schedule presents only a selective portion of the activities of the University, it is not intended to and does not present the financial position, change in net assets or current revenues, expenditures, and other changes of the University. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. For reporting purposes, federal awards have been classified into three types:

1) Student Financial Aid
2) Research and Development
3) Other Federal Programs

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows for the year ended June 30, 2008:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Basic, Applied and Advanced Research in Science and Engineering	12.630	$ 37,933
Non Point Source Implementation Grants	66.460	3,524
Fund for the Improvement of Postsecondary Education	84.116M	8,155
Special Education-Grants to States	84.027A	141,599
Special Education-Technical Assistance on State Data Collection	84.373X	234,113
Center for Disease Control and Prevention Investigations and Technical Assistance	93.283	56,899
Academic Research Enhancement Award	93.575	12,440
Fund for the Improvement of Postsecondary Education	84.116N	12,303
Javits Gifted and Talented Students Education Grant Program	84.206A	47,663
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	367,517
Totals		$ 922,146

Note 3. Guaranteed Student Loans

The following information is not included in the Schedule of Expenditures of Federal Awards. The University participates in the Direct Loan program.

The number of guaranteed student loans and total amount for each program were as follows for Ball State University students for the year ended June 30, 2008:

Program Title	Federal CFDA Number	Loan Amounts	Number Of Loans
Stafford Student Loan Program (Subsidized)	84.268	$ 33,398,542	$ 7,747
Stafford Student Loan Program (Unsubsidized)	84.268	21,942,870	5,364
Parent Loan for Undergraduate Students (PLUS)	84.268	29,452,057	2,922
Totals		$ 84,793,469	$ 16,033

Note 4. Other Programs Student Loans

The following information is not included in the Schedule of Expenditures of Federal Awards. The University participates in the Perkins and Nursing Student Loan programs.

Program Title	Federal CFDA Number	Loan Amounts
Federal Perkins Loan Program – Notes Receivable	84.038	$ 9,548,877
Nursing Student Loan Program – Notes Receivable	93.364	6,095
Totals		$ 9,554,972

Note 5. Other Considerations

As it pertains to the Federal Awards, the University was not required to have insurance in effect and it did not have any noncash assistance during the year ending June 30, 2008.

BALL STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
SFA Cluster	Student Financial Aid Cluster
84.027	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $696,922

Auditee qualified as low-risk auditee? No

BALL STATE UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

BALL STATE UNIVERSITY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2009, with Thomas J. Kinghorn, Vice President Business Affairs and Treasurer; William A. McCune, Controller and Associate Vice President of Business Services; Dr. Randall B. Howard, Associate Vice President, Finance and Assistant Treasurer; Robert Zellers, Director of Scholarships and Financial Aid; Kathy Lucas, Director of Contracts and Grants; and Thomas Roberts, Director of Auditing. Our audit disclosed no material items that warrant comment at this time.

FINANCIAL REPORT
Year Ended June 30, 2008

BALL STATE UNIVERSITY

EDUCATION REDEFINED®

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, 2008,

and the results of activities for

the year then ended.

Thomas J. Kinghorn
Vice President for Business Affairs
and Treasurer

December 19, 2008

This financial report has been prepared

by the Office of Controller and Business Services

Ball State University, Muncie, Indiana 47306

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

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

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

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

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

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

Ball State University

2007-2008

University President

Jo Ann M. Gora

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Ball State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2008 and 2007. 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, 2008 and 2007, 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 October 23, 2008, 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

October 23, 2008

State Board of Accounts

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Ball State University
Management's Discussion and Analysis
June 30, 2008

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 eight associate-level programs, 178 undergraduate degree programs, 97 masters-level programs, 16 doctoral-level programs and four specialists programs, all fully accredited by the North Central Association of Colleges and Schools, as well as various schools, departments and programs being accredited by numerous other professional agencies, licensing boards, and state agencies. Enrollment in these programs for Fall 2007, totaled 17,919 full-time equivalent students from a total headcount of 20,325. On-campus enrollment totaled 15,877 full-time equivalent students from a total headcount of 16,828, approximately 6,700 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. As of the beginning of the 2007-2008 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,819 full-time and 452 part-time personnel. The campus facilities include 118 buildings, 96 of which are considered major, on 1,043 acres.

What follows is the Ball State University Financial Report for the year ended June 30, 2008, 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, excluding those grants for financial aid, are recorded as operating revenues. This means that state appropriations, which are used primarily for operations, and federal and state financial aid, 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, required supplemental information regarding the funding progress of Other Post Employment Benefits (OPEB), as mandated by GASB Statement No. 45, and supplemental information not otherwise required. 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.

In May, 2006, the American Institute of Certified Public Accountants issued its Statement on Auditing Standards (SAS) No. 112, "Communicating Internal Control Related Matters Identified in an Audit." This statement, which applies to all organizations who publish audited financial statements, including governmental and not-for-profit organizations, incorporates many of the more stringent definitions for reporting significant deficiencies and material weaknesses that are currently applicable to the audits of publicly held corporations. In an effort to fully comply with provisions of the new internal control standards Ball State University has undertaken a detailed review of policies and procedures, documentation, processes, and training, with an emphasis on strengthening internal control. In addition, business continuity plans have been updated and tested and the internal audit process expanded.

Strategic Plan

This year, Ball State University will recognize the 90th anniversary of its founding. At no time in its history has the University future looked brighter. The increasingly global, technology-driven marketplace is demanding new skills of college graduates. The University has taken a proactive approach in recognizing these changing dynamics and responding with bold steps to ensure its competitiveness as a top-quality choice in public higher education. Ball State's response is multi-faceted but can be summarized with a drive toward the distinctiveness of its students and a commitment to immersive learning. The health of the University, which is defined by quality students and quality faculty, relies on being known for distinctiveness in the programs it offers.

Ball State's strategic plan is designed to enhance the University's entrepreneurial approach to learning, scholarship, and civic engagement. Its goal is to redefine education and to provide a nationally recognized, distinctive, academically innovative higher education choice in Indiana. The plan has four key strategies which will continue to build on Ball State's past and present strengths and successes.

First, the plan calls for Ball State to offer relevant immersive learning opportunities to each undergraduate student. Immersive learning experiences are transformational; students work as a team under a faculty mentor to develop real-world solutions to real-world problems. These interdisciplinary, business and community-based, student-driven learning experiences not only benefit the student, but also help the greater society by addressing the issues facing our world today. Immersive learning seeks to serve, engage with, and learn from leaders in businesses, communities, the state, nation, and world. During the 2007-2008 academic year, over 2,700 undergraduate students participated in 125 different immersive learning opportunities that enhance learning as well as assist local communities and businesses throughout Indiana.

Immersive learning is embraced by bright, creative students. It offers a significant intellectual challenge and, thus, is an essential point of institutional differentiation. Distinctiveness is critical to the health of the University. It is the key to healthy enrollment, quality students, and external support because it allows the University to clearly articulate its vision and stand apart from the competition.

Second, implementing the plan requires that the University attract better prepared students. Immersive learning represents a significant intellectual challenge, and the University is committed to seeking students who can step up to this challenge. It is intended that students admitted with higher academic achievement will ensure increased retention rates among students and develop graduates who will serve as ambassadors for the quality and uniqueness of a Ball State education. It is further anticipated that these ambassadors will increase the University's local and national reputation and encourage other high quality prospects to seek admission.

As testament to this commitment toward attracting higher quality students, over 57 percent of the incoming freshman class has completed an academic honors curriculum in high school. It is the University's goal that by 2012, over 80 percent of freshmen will have achieved academic honors distinction. This increase in enrollment of higher quality, academically talented students has led to concurrent increases in freshman to sophomore retention and graduation rates. A university's ability to retain students after the freshman year is a key indicator of future success and completion. Ball State University's six year graduation rate has risen over 15 percentage points in the past eight years. This increase is remarkable and ranks among the best in the country.

Third, the strategic plan focuses on increasing the number of nationally recognized faculty and academic programs. The University believes that the quality of a Ball State education is outstanding. Increases in national rankings and recognition should reinforce this fact to external audiences and promote the University's brand among prospective students. Most recently, Ball State University was recognized by *U.S. News and World Report* for ranking 14th in its list of "Up and Coming National Universities."

Fourth, the plan seeks to create a University community that is nationally recognized for a vibrant and supportive atmosphere. Competition for high quality students has never been more challenging. Students expect and often demand an environment that supports their creativity both in and outside the classroom. A part of reaching this strategic goal is the further development and expansion of the campus community, construction of new facilities and the renovation of existing campus facilities to best support learning, scholarship, institutional effectiveness, and quality of life.

The implementation of strategic plans requires fiscally sound planning geared to a sustainable long-term approach to financial management. Because this approach has been integral to Ball State University financial management for decades, the University is in a strong position to be successful in achieving its current goals and objectives. As explained in later sections of this report, sound long-term financial planning has enabled several major initiatives in the strategic plan such as increasing student selectivity, attracting key faculty and administrative personnel, upgrading administrative software and technology and the utilization of net capital assets for planned new construction and renewal projects.

Financial Highlights

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2008, as compared to the previous year. Net assets increased by $36.3 million, due primarily to an increase in restricted net assets for construction of $43.5 million, partially offset by a reduction in capital assets net of related debt of $24.3 million, and unrestricted net assets increased by $16.2 million. The increase in unrestricted net assets included $6.3 million in prepaid retiree benefits recognized for the first time as a result of GASB Statement No. 45 taking effect for the first time in fiscal year 2008.

The current ratio for the University, which is calculated by dividing current assets by current liabilities, increased from 1.77 to 1 at June 30, 2007 to 2.64 to 1 at June 30, 2008. Although a significant portion of this increase can be attributed to a new bond issuance, this ratio is still an indicator of the University's strong short-term financial flexibility. One of the most basic determinants of clear financial health is the availability of expendable net assets to cover debt should it become necessary to settle those debt obligations. This viability ratio measures the University's ability to fund these long-term obligations. At June 30, 2008, the University's viability ratio was 1.95 to 1. As the ratio grows above 1 to 1, so does the University's ability to respond to adverse conditions as well as its ability to attract capital from external sources and fund new objectives.

Appropriations, Gifts and Grants

The University's financial situation for 2007-08, which was the first year of the current biennium, was positively impacted by higher appropriations from the State of Indiana. Overall, appropriations increased by 2.4 percent over the prior fiscal year. State appropriations for operations increased by 2.8 percent and will increase even more in the second year of the biennium. While the increase is a significant improvement over the decreases in appropriations experienced in 2006-07, there is still a concern that operating appropriation increases have not kept pace with annual inflation. With regard to the preservation of capital assets, the biennial funding included 50 percent of the formula appropriation for renewal and replacement of academic and administrative buildings and infrastructure. In addition, the State, having withheld payment of one monthly appropriation in fiscal 2005, repaid $4.1 million of that amount during fiscal 2007 and another $3.3 million in fiscal 2008. The remaining $3.3 million is appropriated for repayment by the end of fiscal 2009. This will mean that by 2009 the total amount of temporary internal borrowing for this purpose will be repaid.

The University received 338 grant awards for research and other sponsored programs, totaling $20.4 million. This amount included significant grants from the U.S. Department of Justice, Indiana Department of Education, Woodrow Wilson National Fellowship Foundation, Corporation for Public Broadcasting, Indiana Tobacco Prevention and Cessation, U.S. Department of Education, and Vico Software. Grant awards may include cash received in advance, letters of credit, and cost reimbursable projects. The overall success ratio, measured by the number of awards received compared to the number of proposals submitted, was 74 percent in fiscal 2008, an increase from 64 percent in the prior fiscal year.

During fiscal 2008, supporters of Ball State University contributed private gifts to the Ball State University Foundation totaling $23.2 million, an increase over the prior fiscal year. In addition to funds received during the fiscal year, the University also obtained several major multi-year commitments in support of its new capital campaign and strategic plan. These gifts will be reflected in future fiscal year giving reports.

Other Postemployment Benefits

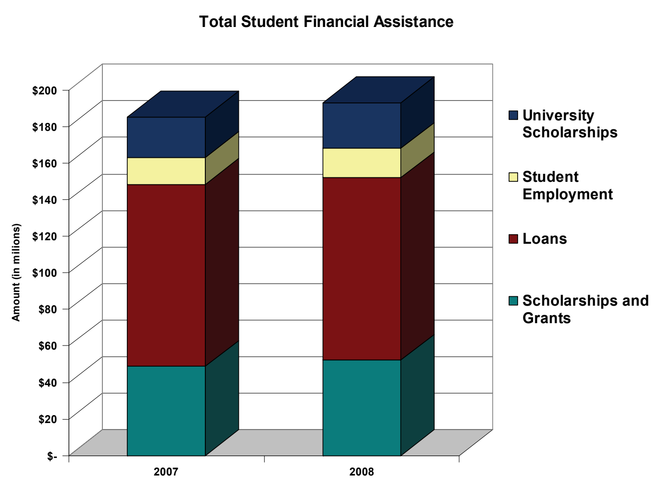
As of the most recent actuarial study, dated June 30, 2007, Ball State University's liability for retiree health care was estimated to be $146.9 million if the actuarial effect of future Medicare Retiree Drug Subsidies is included, as it is under rules established by the Financial Accounting Standards Board (FASB) for non-governmental entities. The trust fund established to assist in financing this liability had a market value of $148.9 million at June 30, 2007, slightly higher than the actuarial liability. Due to weaknesses in the investment markets since then, the fund has a market value at June 30, 2008, of $142.8 million. Since Ball State University's financial statements are prepared according to Governmental Accounting Standards Board (GASB) rules, which do not permit the inclusion of the actuarial effect of the Medicare Retiree Drug Subsidies, the actuarial liability must be reported as $171.9 million. It is expected that the funding level will vary with general economic conditions over time. For example, this liability had been actuarially fully funded in the late 1990's. The University has a systematic plan in place to fund the benefit in accordance with the recently released GASB Statement No. 45.

Ball State University is not unique in providing health care as a benefit for its retirees. A 2004 TIAA-CREF survey revealed that 75 percent of colleges and universities offer retiree health care as a benefit. More recently, a Kaiser Family Foundation survey in 2007, indicated that 98 percent of state and local governments surveyed offered retiree health care benefits to early retirees, and 81 percent offered these benefits to Medicare-eligible retirees. One of Ball State University's financial strengths is that it has been engaged since the late 1980's in the systematic funding of this liability to its current status. The University's aggressive employee, retiree, and family wellness initiative will also contribute to the management of costs for this program.

Scholarships and Financial Aid

Traditionally, colleges and universities provide access to higher education by offering institutional financial assistance to selected students to help cover their tuition and fees. This assistance can be based on financial need or merit. Using The College Board's definition of tuition discounting for undergraduate students, Ball State's fiscal year 2008 discount rate was 17.5 percent, an increase over last year's discount rate of 16.2 percent. This compares favorably to the benchmark average for four-year public institutions of 14.6 percent as calculated by The College Board in their 2006 study, "*Tuition Discounting: Not Just a Private College Practice*."

In addition to the types of financial aid included in the College Board study, several other types of aid such as federal and state financial assistance, federally guaranteed student loans, federal and state college work study, institutional aid providing room and board expenses, graduate assistants' and doctoral assistants' tuition remissions, other external scholarships, and University student wages are available to improve educational access for Ball State students. The University's total student financial assistance provided in the fiscal year, as the graph indicates, was over $193.0 million compared to $185.3 million in the prior year.



In 2008, all forms of financial assistance, including student employment and loans, increased by 4.2 percent. Grant aid, which excludes student employment and loans, increased by 8.7 percent. This increase included $3.4 million in additional scholarships, grants, and awards and $2.8 million in institutional remitted fees.

Public Recognition

Commitment to immersive learning and leadership in emerging media has earned Ball State University a top spot in *U.S. News & World Report*. In the publication's 2008 rankings issue, Ball State is cited as the nation's 14th best "Schools to Watch." This newly launched list of up-and-comers honored colleges and universities that are making the most promising and innovative changes in academics, faculty, students, campus or facilities. Also cited by the magazine were Ball State's innovative and award-winning first year programs that enable first year students to succeed at the college level. These programs have helped the University achieve a 78 percent retention rate, rivaling select public universities and private universities. For the fourth consecutive year, Ball State University was also recognized in 2008, as one of the best universities in the Midwest by the *Princeton Review*, based on the University's excellent academic programs and the opinions of students who report about their campus experiences.

In addition to these overall institutional accolades, several departments earned national rankings in their respective fields. Landscape Architecture ranked as the nation's fourth best undergraduate program and fifth best graduate program in the 2008 edition of Design Intelligence's *America's Best Architecture and Design Schools.* Entrepreneurship was ranked 11th in 2008 by *Entrepreneur* magazine and the *Princeton Review* and 10th in the nation by *U.S. News & World Report*. Ball State was recognized by *In Tune* magazine in its "Best Music Schools" 2009 listing, placing our School of Music among other elite institutions such as Juilliard, Oberlin, and the Boston Conservatory. The Journalism Department was ranked among the top 45 programs in the country in 2007 by *Editor & Publisher*, the nation's oldest publication covering the newspaper industry. The Finance Department ranked 11th nationally for quality teaching in an independent study published in the spring 2006 issue of *Advances in Financial Education*. The University Sales Education Foundation ranked Ball State's program, based in our H.H. Gregg Center for Professional Selling, among the top 26 university sales programs in the United States.

Capital Projects

The Fall of 2007 was an exciting time on the Ball State campus as the university opened four newly constructed or renovated facilities. Park Hall, the first new residence hall to be built on campus since 1969, opened its doors to over 500 new residents in August, 2007. Park Hall was designed with student input and includes amenities such as semi-private baths for double rooms, a limited number of single rooms, two two-story social lounges, a work-out room, and technology center.

Park Hall

Woodworth Commons

David Letterman
Communication and Media Building

Students and staff were also offered a new dining experience through the expanded and renovated Woodworth Commons dining facility. Woodworth Commons features an expanded dining area, open food preparation courts, a two-story atrium, and beautiful stone, tile and woodwork throughout.

The University also welcomed back distinguished alumnus David Letterman on September 7, 2007, for the dedication of the new David Letterman Communication and Media Building, a state-of-the-art facility which will house Indiana Public Radio and WCRD radio stations, 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 combines all departments within the college and therefore supports collaboration and engagement of faculty and students on an interdisciplinary basis within the college.

Scheumann Football Stadium

The Cardinal football team opened their 2007 season in the newly renovated Scheumann Football Stadium. The renovations included a new field turf playing field, expanded disabled accessibility, entertainment suites, club seating, a family-style seating area and improved game operations and support facilities.

The Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report in summary fashion the financial position of the University as a whole and on its activities, focusing on the University's net assets. These statements include all assets, liabilities, revenues and expenses, using the accrual basis of accounting. The only exceptions are gifts and grants and interest on student loans, which are generally recorded only when received. The following is a summary of the major components of net assets at June 30, 2008.

Net Assets
June 30, 2008 and 2007

	2008	2007 Restated and Reclassified
Assets:		
Current Assets	$ 132,225,250	$ 89,642,457
Noncurrent Assets:		
Capital Assets, Net of Depreciation	412,039,503	400,003,165
Other	239,943,587	225,699,892
Total Assets	$ 784,208,340	$ 715,345,514
Liabilities:		
Current Liabilities	$ 50,128,174	$ 50,650,101
Noncurrent Liabilities	172,334,442	139,271,401
Total Liabilities	$ 222,462,616	$ 189,921,502
Net Assets:		
Invested in Capital Assets Net of Related Debt	$ 256,317,359	$ 280,663,018
Restricted	67,180,703	22,680,365
Unrestricted	238,247,662	222,080,629
Total Net Assets	$ 561,745,724	$ 525,424,012
Total Liabilities and Net Assets	$ 784,208,340	$ 715,345,514

Current and Other Assets

Current and other assets increased $56.8 million from the previous year, due primarily to a $54.4 million increase in cash equivalents, short term investments, and long term investments, all of which was due primarily to the issuance of $63.6 million in student fee bonds in January, 2008, to fund a portion of the replacement of the University's heat plant and to refund portions of earlier outstanding student fee bonds. An additional $6.3 million increase was attributable to recording prepaid retiree benefits for the first time as required under GASB Statement No. 45.

Debt Administration

The University had $155.7 million of bond indebtedness outstanding at June 30, 2008, compared to $117.8 million outstanding the prior year end. The increase is due to the issuance of Ball State University Student Fee Bonds, Series N which involved a refunding component and a new money component for the renovation of Ball State's Heating Plant. These bonds have an insured rating of Aaa (Moody's) and AAA (Standard & Poor's). In recent ratings, both Moody's and Standard and Poor's noted the University's consistently strong operating performance, strong liquidity levels and moderate debt burden as positive indicators of future financial performance. The underlying ratings for the Series N Bonds are A-1 (Moody's) and A+ (Standard & Poor's). More details regarding the University's bonds payable are presented in the Notes to Financial Statements.

Capital Assets

On June 30, 2008, the University had $256.3 million invested in capital assets, net of accumulated depreciation of $248.6 million and related debt of $155.7 million. Depreciation charges totaled $16.0 million for the current fiscal year. All of these amounts reflect cost of construction rather than replacement cost.

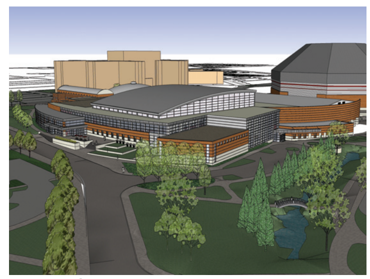

North Residence Hall


Dehority Complex


L.A. Pittenger Student Center

Construction during 2008, included $5.0 million expended for the major renovation of DeHority Complex, $3.5 million expended for construction of the new North Residence Hall, and $1.0 million expended for renovation of the L. A. Pittenger Student Center, all of which were funded from internally designated capital repair and replacement accounts. Also, $4.1million was expended for the expansion and improvement of the Student Recreation and Wellness Facilities. Funding for the Recreation and Wellness Facilities will be provided by a combination of private support and student fee bonds to be issued in fiscal 2009.

Renovation or construction of several other campus facilities was completed during 2008. This included an additional $3.5 million expended for the renovation and expansion of Scheumann Football Stadium, $2.9 million for construction of the new Park Hall, and $1.9 million for construction of the new David Letterman Communication and Media Building.


Student Recreation and Wellness Facility

Current operating funds were utilized to purchase $5.2 million in capital equipment, some of which replaced mostly fully-depreciated equipment dispositions originally costing $6.6 million.

A project is currently underway to improve the University's heating and cooling energy generation operation in order to upgrade the capability of this important infrastructure element. As the equipment ages and the campus expands, this project is critical to ensure the University's ability to generate an adequate amount of heating and cooling in a reliable and cost-effective manner. This project is expected to cost $44.9 million and is being financed by student fee bonds issued in 2008. Approximately $0.6 million was expended on the heat plant project in 2008. The schedule for completion is 2011.

In 2007, the Indiana General Assembly approved $33.0 million in bonding authority for Phase I of the Central Campus Renovation Project and Utilities Improvement. This project involves the strategic renovation of three adjacent campus buildings: Teachers College (constructed in 1966), Applied Science and Technology (constructed in two phases between 1948 and 1950), and North Quadrangle (constructed in three phases in 1926, 1932, and 1953). Each structure, now decades old, is in critical need of renovation to address emerging instructional and technological requirements as well as outdated and inefficient mechanical and electrical systems. The University plans to complete this project in two phases and is currently seeking funding from the State for the second phase.


North Quad Building


Teachers College


Applied Science & Technology

Ball Honors House

Additions and renovations to the Ball Honors House will begin in the fall of 2008. When renovations are completed, this 1930's era residence will become the new home to the Honors College. The historic structure will include space reconfigured for offices, classrooms, and gathering areas. This project is expected to be complete in 2009 and was made possible through the generous contributions of the late Edmund F. and Virginia B. Ball, the house's former residents.

Many of the buildings on campus were constructed 40 to 60 years ago. The University's ability to keep capital assets in good condition in order to accomplish its mission is an ongoing challenge requiring a strong commitment to long-range planning. In the net assets section, this planning will be described in greater detail.

Net Assets

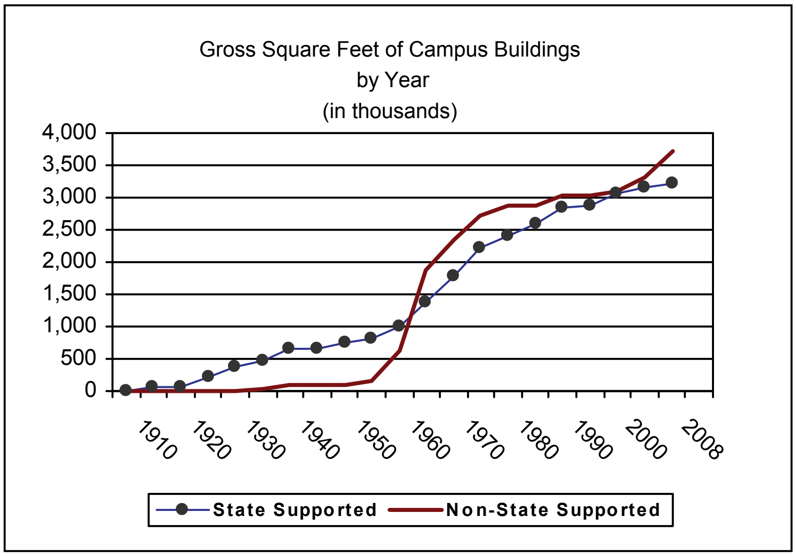
In addition to net capital assets, the university had other net assets totaling $305.4 million. This includes $67.2 million in restricted net assets which was comprised of: $0.9 million in nonexpendable endowment restricted for student scholarships, $3.0 million restricted for debt service, $2.3 million restricted for student loans, $55.5 million restricted for construction, and $5.4 million restricted for external grants.

The remaining balance of $238.2 million is in unrestricted net assets, which do not have externally imposed restrictions, but are 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, prepaid expense for retiree benefits as calculated in accordance with GASB Statement No. 45, 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 sections.

One of the major challenges confronting the University is the stewardship of facilities and equipment resources. This includes modernization and renewal of 118 buildings (96 of which are considered major) totaling 7.0 million gross square feet. Campus buildings involve 33 acres of roof area, contain 107 elevators, 406 technology-equipped, general-purpose classrooms, and technologically complex mechanical operating systems in each structure. The average building at Ball State University is 40 years old. The University also owns 1,043 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 22 miles of sewers; over eight miles of water piping; over 50 miles of electrical power distribution wiring; and over 5,319 miles of communication cable to connect buildings. Above the ground, the University has 1,354 outside lighting poles, 33 miles of sidewalks and service roads, and 66 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 $1.7 billion based on an analysis of existing facilities and current construction cost indices. Building construction and ongoing renewal of University property is financed following methods specific to the type and use of the facility involved. The ongoing renewal of facilities and infrastructure systems support Ball State University's mission of becoming a nationally recognized institution of excellence.



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 50 percent of the campus square footage is dedicated to academic and administrative uses. Significant reductions in the state appropriations for repair and rehabilitation in recent biennia have created a steep increase in unfunded projects. For instance, 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. The appropriation in 2005-2007 increased to 43 percent of its full funding level. For the 2007-2009 biennium, the appropriation is at 50 percent of the formula funding. To partially offset the decrease in state appropriations, $2.2 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.

Stewardship and Renewal of Non-State Supported Buildings

The remaining 50 percent of campus square footage consists of buildings which are not state supported. As depicted in the graph, the gross square footage of non-state supported buildings such as dining and residence halls, parking facilities, the student center, Emens Auditorium, athletic facilities, and conference venues, increased substantially in the 1950's and 1960's. These non-state supported buildings have a current replacement value of approximately $647.4 million. Between now and 2015, over $209.8 million, in current dollars, is planned for investment in renewal projects on these facilities. Currently, $113.2 million has been allocated from auxiliary operations revenues and student fees for the stewardship and renewal of these facilities. The following tables list major non-state supported projects currently underway or in the planning process for the next few years.

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

	Budget (in millions)
New North Residence Hall	$ 46.5
Student Wellness & Recreaton Facilities - A	39.0
Dehority Complex Renovaton	30.0
L.A. Pittenger Student Center Renovaton	22.9
East Campus Site Improvements	1.0
Noyer Commons	1.0
Total Major Projects in Progress	$ 140.4

Note A: Funded by $10.0 million in private gifts and $29.0 million in student fee bonds.

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

	Budget (in millions)
Johnson Halls Renovation	$ 52.5
Studebaker East Renovation	20.3
Elliott Hall Renovaton	14.1
Studebaker West Sprinkler System	1.0
Total Major Projects in Planning	$ 87.9

Following several national reports with titles such as "Crumbling Academe" and "The Decaying American Campus: A Ticking Time Bomb," attention was focused on the need for a systematic and thoughtful approach to long-term facility stewardship. *Financial Planning Guidelines for Facility Renewal and Adaption,* a study sponsored by the Lilly Endowment and conducted by the Society for College and University Planning, the National Association of College and

University Business Officers, the Association of Physical Plant Administrators of Universities and Colleges, and Coopers and Lybrand (now PricewaterhouseCoopers) estimates that between two percent and four percent of plant replacement cost needs to be provided, on average, each year in order to adequately fund repairs, renewal, and adapting facilities to changing code requirements and to evolving, contemporary needs. The Component Life-Cycle Illustrations table provides several examples of major repair and renewal components, as well as the typical life cycle for each. Obviously, given the timing of these major repair and renewal projects, the amount spent in any given year will vary greatly from other years, which explains why the balance in this classification will increase and decrease over time.

Component Life-Cycle Illustrations

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

Based on this and other studies, as well as direct experience over many years managing complex University facilities, an annual target of three percent of current replacement value is in order to adequately fund this stewardship responsibility for housing, dining, and other non-state supported buildings and avoid even higher costs brought about by accumulated deferred maintenance. For parking facilities, which are comprised of multi-level structures and paved and gravel lots, an annual target of two percent of current replacement value has been established. This methodology, which provides generational equity in funding across multiple student populations, is based on the premise that users should pay their fair share for the deterioration of the facilities they use. The goal is to maintain competitive, quality facilities at the lowest long-term cost to students.

During 2001 and 2002, a comprehensive study of residential and dining units was undertaken as part of a process that led to the creation of a plan for the investment of more than $250.0 million in renewal and new construction projects over the next 15 years. Unlike capital expenditures for academic buildings, these improvements must be financed utilizing residence and dining revenues accumulated over past years, together with debt to be serviced utilizing future residence and dining revenues. All of this will need to be accomplished while, at the same time, maintaining room and board rates that are competitive with other housing options available to students.

The largest portion of the $113.2 million for the stewardship and renewal of non-state supported facilities is $73.8 million in the Residence Hall and Dining Hall Repair and Replacement account. The current replacement value for these facilities is $464.9 million. The University is committed to offering a strong residential experience for students. Part of that commitment is providing the type of accommodations that students attending college today expect. Park Hall, which opened in Fall 2007, is an example of that commitment, and it was very well received by residents and visitors alike. In each of the two years that Park Hall has now been opened, it was the first residence hall to be filled. Overall, occupancy in available student housing is at 99 percent for Fall 2008. Over the next seven years, the University plans to use more than $168.2 million from the Residence Hall and Dining Repair and Replacement account, in current dollars, for scheduled major projects as well as ongoing capital repair and replacement projects. These uses include several major projects, like the renovation of DeHority Complex and construction of the new North Residence Hall, which are currently underway.

The University's parking facilities consist of three parking garages with 1,498 spaces and 66 acres of surface parking with an additional 7,954 spaces. The current replacement value for these facilities is $48.0 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 $3.8 million, funded primarily from parking revenues, including permits, daily fees, and citations. The University plans to spend more than $6.6 million, in current dollars, over the next seven years and over $9.3 million in the next ten years for major and ongoing renewal of these facilities.

Emens Auditorium

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 $134.4 million. Each of these facilities has its own renewal plan, based on its age and life cycle of its various components. In order to fund the renewal of these facilities,

$35.5 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 $35.1 million in current dollars will be used from this account for major renovations as well as regular ongoing capital renewal projects. For example, as mentioned previously, major renovations are underway for the L. A. Pittenger Student Center, which will be financed using funds from the Facilities Renewal account for non-state supported buildings. In addition, Worthen Arena is approaching an age when certain significant rehabilitation projects must be undertaken to avoid costly deferred maintenance in future years

Worthen Arena

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. In addition, the final parcels necessary to construct the new North Residence Hall were purchased in the 2008 fiscal year. Experience shows that looking to the future and acquiring property substantially ahead of a specific need is the most desirable and cost effective approach. Strategic acquisitions yield lower costs, more orderly planning and help prevent negative community relations. The University has identified three areas directly east of campus for expansion and has initiated a program targeted at acquiring properties in these areas. The University has allocated $16.4 million for campus development purposes.

For over 30 years, Ball State University has operated with state-of-the-art computing equipment to meet the campus needs through a centralized University Computing Service. This has been accomplished by a consistent funding methodology supported by an annual allocation for technology equipment renewal. Presently, this account has a balance of $7.0 million for this purpose as well as for other campus automated systems (library, etc.). Like many institutions of higher education, Ball State University must look toward the future as it plans for a new generation of administrative hardware and software systems to better achieve its academic mission. Toward this purpose, $6.1 million has been set aside for the purchase and/or development of new University wide administrative systems technology. The University has developed a plan for major administrative technology systems upgrade and replacement during the next five to seven years. This plan involves a phased process to assess and map existing technology systems; install a new business intelligence and data warehouse system to significantly improve the analysis and reporting of administrative information; replace outdated hardware and software systems with newer technologies and solutions; and upgrade existing legacy systems to better integrate the use of data across campus administrative units. The University's goal is full implementation of this administrative systems technology within the coming years to coincide with the goals and mission of the University's Strategic Plan.

The University has allocated $11.7 million for several capital projects that are either in progress or recently authorized, including furnishings and equipment for the Central Campus Academic Project and replacement or 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. To ensure that the University can meet its immediate obligations to bondholders, $11.5 million has been allocated from student fees for principal and interest payments on student fee revenue bonds.

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 $15.8 million, of which $13.0 million pertains to the self-insured health care plan for employees, retirees, and their families. Of the $13.0 million, $6.0 million represents claims that were incurred but not yet paid as of year end, while $5.8 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. The remaining $1.2 million in health care reserves consists primarily of funds received and accrued for the Medicare Retiree Drug Subsidy and rebates received from the University's prescription benefit manager. These receipts arrived late in the fiscal year and, in some cases, after the close of the fiscal year, resulting in the recording of a receivable at year end to recognize the income. Of the remaining $2.7 million in reserves, $1.3 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. In addition to the insurance reserves, the requirements of GASB Statement No. 45 resulted in the recognition of $6.3 million in prepaid retiree health care expense, which resulted in an increase in net assets by that amount.

As discussed earlier, 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, however, it is anticipated that there may be an initial short-term decrease in overall enrollment. It is further anticipated that student fee revenues will decrease as a result of this temporary downturn. In order to provide the financing to partially offset the potential loss in student fees, the University has allocated $7.1 million from the general fund for the Student Selectivity Enrollment Contingency Allowance. In the long term, higher retention rates and increased quality should restore and eventually increase the overall number of enrolled students.

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, $4.5 million has been allocated.

Other Allocations

The University has designated $0.4 million for emergency loans benefiting students with demonstrated need whose financial aid packages have not been finalized. The University has also designated $1.9 million in unrestricted private donations to be used as an endowment for student scholarship purposes.

The unrestricted net assets also contain $33.8 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 the interest rates on June 30, 2008, were slightly lower than the coupon rates on some of the longer-term investments purchased in prior years, the market adjustment was positive, and the largest portion, $0.3 million, was applied to the balances in unrestricted net assets.

The Statement of Revenues, Expenses and Changes 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, 2008. Note that, for purposes of this statement, state appropriations are considered non-operating revenues.

Change in Net Assets
Year Ended June 30, 2008 and 2007

	2008	2007 Restated and Reclassified
Operating Revenues	$ 205,666,146	$ 192,134,631
Operating Expenses	379,483,947	352,481,118
Net Operating Income/(Loss)	$ (173,817,801)	$ (160,346,487)
Net Non-Operating Revenues	198,879,477	187,867,780
Other Revenue – Capital Appropriations and Gifts	11,260,036	14,759,674
Increase in Net Assets	$ 36,321,712	$ 42,280,967
Net Assets - Beginning of Year	525,424,012	497,497,308
Restatement - Change in Accounting Policy	-	(14,354,263)
Net Assets - End of Year	$ 561,745,724	$ 525,424,012

Operating Revenues

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

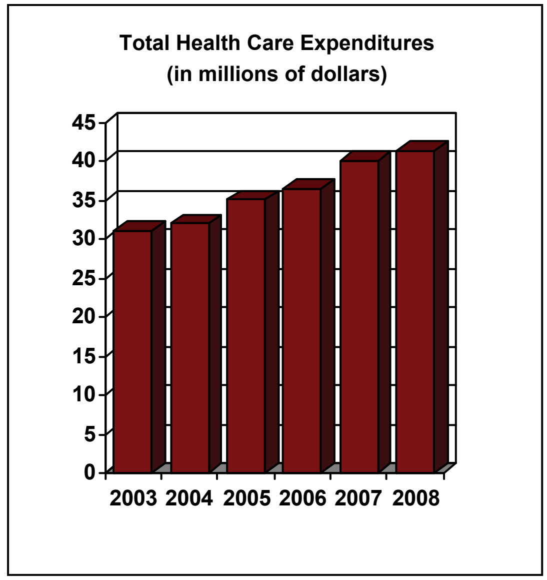
Student tuition and fees net revenue increased $4.6 million as a result of rate increases, and auxiliary enterprises revenue, including housing and dining net revenues, increased $4.7 million, due primarily to rate increases and increased occupancy in the residence halls. Scholarship allowances, generated by federal and state financial aid funds as well as internally generated discounts, have reduced tuition and fees revenue by $46.9 million and room and board revenue by $4.2 million.

Grants and Contracts revenue, totaling $24.9 million in 2008, compared to $25.8 million in 2007, was essentially unchanged from the previous year. A reclassification of most federal and state grants for student financial aid to non-operating revenues resulted in federal and state grants and contracts decreasing in both 2007 and 2008. This was necessary due to a recent change in the GASB Implementation Guide which ruled that such aid was essentially a gift and therefore a non-exchange transaction.

Sales and Services of Educational Departments increased by $3.8 million, due primarily to increases in the Center for Media Design and the Computer Showcase.

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 $6.6 million, which are in addition to $46.9 million and $4.2 million in scholarships and fee remissions netted against tuition and fees revenue and room and board revenues, respectively. Overall, operating expenses increased by $27.0 million over last year. This increase was largely due to a $15.8 million increase in salaries and benefits. Other operating expenses are also higher, due primarily to increases in other supplies and expenses arising from externally funded expenditures related to fund raising, promotion of the University, and the Center for Media Design.



Approximately 98 percent of the University's employees electing the health care benefit were members of one of the three options available within the Preferred Provider Organization (PPO) Plan for fiscal year 2008. The University receives sizable discounts from in-network providers, offered two less expensive health care options, and has implemented improved wellness initiatives. These initiatives include active efforts to inform employees and retirees of ways to better manage their chronic medical conditions as part of a Health Enhancement Program. Consequently, health care costs increased at rates lower than earlier expected. While efforts will continue to reduce the rate of increase in health care costs, it is expected that next year the rates will increase by more than the actual increase this year, due to higher costs for physicians, hospitals and prescription drugs, and increased usage by the University's employees and retirees. 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. According to published results of surveys of employers, insurers, actuaries and third party administrators, conducted by reputable human resources consulting firms, costs are expected to continue to increase for the foreseeable future.

Non-Operating Revenues and Expenses

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

For 2008, state appropriations increased by $2.6 million from the previous year. In addition, the University received $3.3 million of the appropriation withheld in prior years and expects to receive the final $3.3 million in 2009. Therefore, this amount has been reclassified as a current receivable.

Private support increased by $5.1 million, which represents increased sharing by the Ball State University Foundation of the costs of fund raising as well as efforts to promote the University.

Federal and State Scholarships and Grants increased by $3.2 million. In prior years, these were reported under operating revenues. A recent clarification by GASB resulted in the grants which are non-exchange in nature being reported as non-operating. Last year's amount has been reclassified for comparison purposes.

Other Revenues

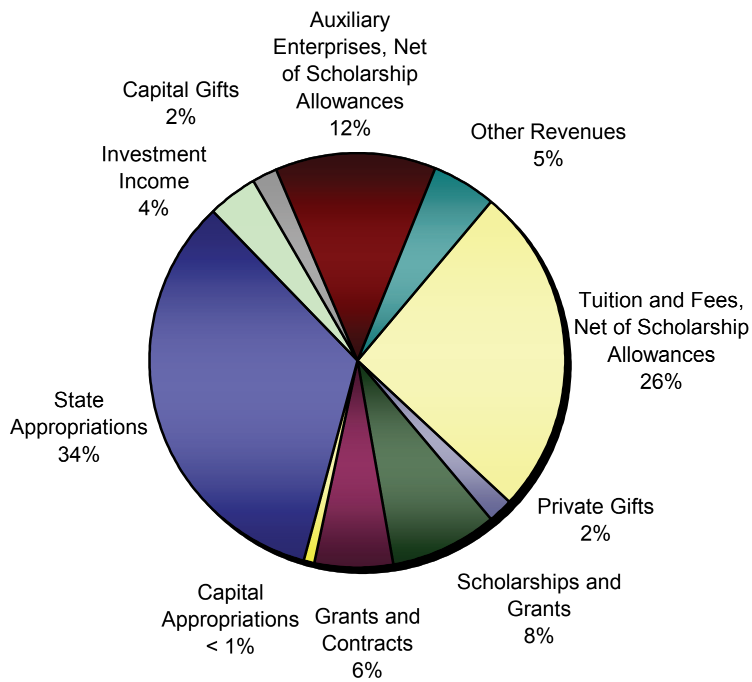
Renewal and Replacement Appropriations
(millions of dollars)

2003	2004	2005	2006	2007	2008
$0.0	$0.7	$0.7	$2.6	$2.6	$3.4

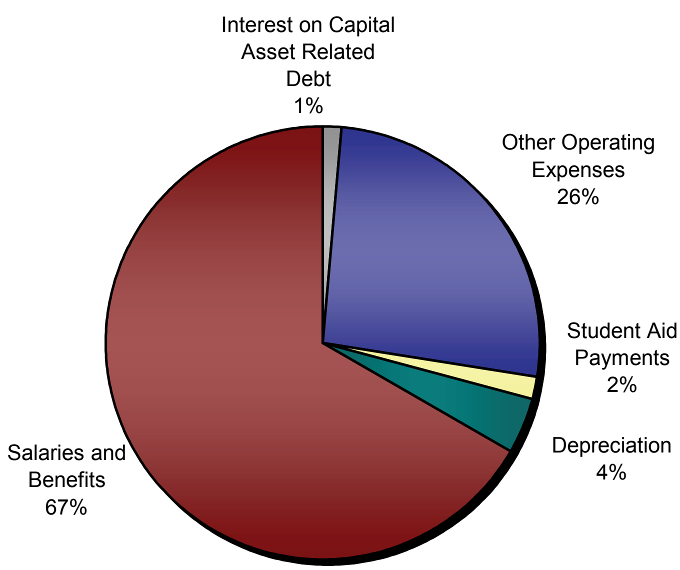
Other revenues increase net assets and consist of capital appropriations, gifts and grants, as well as items that are typically non-recurring, extraordinary, or unusual to the University.

Capital appropriations financed by the State of Indiana for renewal and replacement were $3.4 million, an increase of $0.8 million over the prior year. In addition, the University received $7.9 million in capital gifts through the Ball State University Foundation to fund the expansion and renovation of Scheumann Football Stadium and construction of the new Student Recreation and Wellness Facilities.

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, 2008 and 2007

	2008	2007 Restated and Reclassified
Cash and Equivalents Provided By/(Used In):		
Operating Activities	$ (167,688,714)	$ (148,391,792)
Non-Capital Financing Activities	193,268,186	172,232,107
Capital and Related Financing Activities	11,865,066	(54,092,536)
Investing Activities	(29,312,375)	(24,756,379)
Net Increase in Cash and Equivalents	$ 8,132,163	$ (55,008,600)
Cash and Equivalents – Beginning of Year	23,229,424	78,238,024
Cash and Equivalents – End of Year	$ 31,361,587	$ 23,229,424

The major components of cash flows provided from operating activities are tuition and fees and auxiliary enterprise activities (housing and dining fees). More cash was provided by tuition and fees and auxiliary enterprise activities than in the prior year due to rate increases and increased occupancy in the residence halls. 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, increased externally funded expenditures for the Center for Media Design, fund raising, promotion of the University, and an increase in cash disbursed for the prepayment of future retiree health care costs, a significant portion of which pertained to prior year amounts received after June 30, 2007.

Cash flows provided from non-capital financing activities primarily reflect state appropriations received of $144.6 million and federal and state scholarships and grants receipts of $35.2 million.

Cash flows from capital financing activities reflect an increase in cash for the year, due to the issuance of bonds for capital projects that have not as yet incurred significant expenditures.

Cash flows from investing activities, most of which consist of reinvesting the proceeds from investments as they mature, resulted in a net decrease in cash due to increased investment purchases utilizing the proceeds of the bond issue.

Economic Factors That Will Affect the Future

As a public institution, 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 realize the major goals and objectives contained in the University's Strategic Plan. To do so will improve the institutions' ability to secure resources to keep pace with changes in enrollment; to replace retiring faculty and administrative personnel with talented new replacements; 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. Managing these obligations has been accomplished historically through ongoing reallocations and reductions while seeking increases in existing revenue streams and adding new sources of revenue, and this will continue. Further elaboration of some of these major challenges is presented in greater detail in the following discussion.

As anticipated, the University's enrollment declined slightly in Fall 2007, as new, higher admission standards were implemented. Through a combination of attracting more qualified students and the related benefit of higher retention rates, the University expects enrollment to stabilize within the next two years and then increase. By executing components of the Strategic Plan related to providing immersion experiences for all students, securing national recognition for additional program areas, as well as taking steps that add to the vibrancy of the campus experience for students, the ability to attract greater numbers of high ability students will be enhanced.

In the next ten years, it is projected that a significant number of faculty and administration will retire from Ball State University with a similar experience expected in some sectors 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 and achieving national stature in identified programs.

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, and federal and state legislative and regulatory pronouncements, all add to the cost and uncertainty involved in the management of this important employee benefit. In an additional effort to manage long-term health care costs, the University recently has initiated a comprehensive Health Enhancement Program for employees and their families. It is expected that over time this investment will more than be returned through lower costs and improved productivity. It is also expected that Federal government action will take place in the years ahead that will likely have a positive impact on the University's long-term funding structure. 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. Based on the plan the University has followed, the current status of the health care program for both active employees and retirees provides a positive asset in recruiting and retaining university personnel.

It is anticipated that Ball State University's underlying credit rating will increase in the coming year, saving the University in terms of the cost of borrowing. This is due to four recent developments. First, the State's underlying Credit Rating was raised by Standard and Poor's to AAA in July of 2008; only nine other states are rated AAA. In addition, Moody's has announced that they plan on recalibrating the rating for all of the U.S. public sector debt they rate. It is anticipated that many public institutions of higher education will experience a one notch increase in their ratings. Additionally, the Ball State Strategic Plan was well received by the rating analysts last year and another year of promising results will work in the University's favor. Finally, according to a recent article in the Journal of Accountancy regarding GASB Statement No. 45, Accounting and Financial Reporting by employers for Postemployment Benefits Other than Pensions, bond rating agencies have indicated that a decision not to fund these benefits signals a lack of management recognition of a major liability, which could affect the rating decision and result in higher interest costs. Since Ball State University has been engaged in funding this liability since the mid-1980's, with the result that, for the most recent actuarial projection, dated July 1, 2007, the liability for retiree health care and life insurance combined was 91.2 percent funded, this should be a positive factor in future credit ratings.

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 Adaptation*, a study cited earlier in this report, estimates that between two percent and four percent of plant replacement cost needs to be provided, on average, each year to accomplish this task. With the combination of internally designated sources and state-appropriated funds, the University will have the resources necessary to retain the effectiveness of its physical assets in achieving the University's mission.

In summary, as the financial statements indicate, the University has been an effective steward of the human, physical and financial resources entrusted to it, based on a planned approach to addressing long-term needs and liabilities while facing shorter-term challenges not unlike other public institutions nationwide. When all of this is taken into consideration, Ball State University remains in a strong position to be a major asset of significant benefit to the citizens of the State of Indiana.

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Ball State University

Statement of Net Assets
June 30, 2008 and 2007

		2008		2007 Restated and Reclassified
Assets:				
Current Assets:				
Cash and Cash Equivalents	$	31,361,587	$	23,229,424
Short Term Investments		44,451,795		14,692,883
Accrued Interest Receivable – Investments		4,379,221		4,363,588
Accounts Receivable, Net, and Unbilled Costs		29,429,094		34,292,462
Inventories		1,551,670		1,471,005
Deposit with Bond Trustee		11,546,628		9,033,160
Notes Receivable, Net		1,516,953		1,744,691
Prepaid Retiree Benefits (See Note J)		6,303,323		-
Prepaid Expenses		1,684,979		815,244
Total Current Assets	$	132,225,250	$	89,642,457
Noncurrent Assets:				
Endowment Investments	$	2,820,802	$	2,655,022
State Appropriation Receivable		-		3,339,406
Accounts and Notes Receivable, Net		10,475,681		9,544,609
Other Long Term Investments		226,647,103		210,160,855
Capital Assets, Net (See Note B)		412,039,504		400,003,165
Total Noncurrent Assets	$	651,983,090	$	625,703,057
Total Assets	$	784,208,340	$	715,345,514
Liabilities:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$	28,168,885	$	27,491,520
Deposits		5,172,983		8,225,682
Deferred Revenue		8,764,731		7,384,896
Long Term Liabilities – Current Portion		8,021,575		7,548,003
Total Current Liabilities	$	50,128,174	$	50,650,101
Noncurrent Liabilities:				
Liability for Compensated Absences	$	7,762,157	$	7,878,457
Advances on Long Term Grants		2,535,417		7,076,695
Perkins Loan Program – Federal Capital Contribution		9,340,173		9,085,813
Long Term Liabilities, net		152,696,695		115,230,436
Total Noncurrent Liabilities	$	172,334,442	$	139,271,401
Total Liabilities	$	222,462,616	$	189,921,502
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$	256,317,359	$	280,663,018
Restricted for:				
Nonexpendable Scholarships		912,496		883,021
Expendable:				
Debt Service		2,994,946		2,637,682
Loans		2,292,847		2,159,328
Construction		55,548,137		12,084,971
External Grants		5,432,277		4,915,363
Unrestricted (See Note B)		238,247,662		222,080,629
Total Net Assets	$	561,745,724	$	525,424,012
Total Liabilities and Net Assets	$	784,208,340	$	715,345,514

Ball State University Foundation

Statement of Financial Position

June 30, 2008 and 2007

		2008		2007
Assets:				
Cash	$	248,043	$	227,972
Interest and Dividends Receivable		73,611		157,045
Contributions Receivable (Net of Allowances: 2008 - $787,055; 2007 - $661,005)		21,563,680		19,116,806
Property Held for Sale		2,142,508		2,132,417
Beneficial Interest in Remainder Trusts		1,910,864		3,896,360
Note Receivable		-		1,174,712
Investments in Marketable Securities		195,936,094		203,165,498
Investments Held in Split-Interest Agreements		2,601,648		3,593,698
Bond Issue Costs and Other Assets		173,638		108,411
Cash Surrender Value of Life Insurance		895,567		842,941
Property and Equipment		2,490,442		2,215,835
Beneficial Interest in Perpetual Trusts		1,816,762		1,820,731
Total Assets	$	229,852,857	$	238,452,426
Liabilities:				
Accounts Payable	$	5,296,320	$	9,373,748
Grants Payable		1,341,508		1,341,508
Accrued Expenses		143,169		317,590
Line of Credit		5,000,000		-
Annuity Obligations		1,921,262		1,697,570
Trust Obligations		860,831		1,101,290
Bonds Payable		10,000,000		10,000,000
Total Liabilities	$	24,563,090	$	23,831,706
Net Assets:				
Unrestricted	$	29,559,889	$	48,225,761
Temporarily Restricted		52,682,379		48,595,356
Permanently Restricted		123,047,499		117,799,603
Total Net Assets	$	205,289,767	$	214,620,720
Total Liabilities and Net Assets	$	229,852,857	$	238,452,426

See Note A in Notes to Financial Statements

Ball State University

Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2008 and 2007

	2008	2007 Restated and Reclassified
Operating Revenues:		
Student Tuition and Fees	$ 155,172,883	$ 146,877,924
Scholarship Allowances	(46,947,251)	(43,258,798)
Net Student Tuition and Fees	$ 108,225,632	$ 103,619,126
Federal Grants and Contracts (See Note B)	9,728,707	10,933,414
State Grants and Contracts (See Note B)	2,770,172	912,118
Other Governmental Grants and Contracts	248,363	197,285
Non-Governmental Grants and Contracts	12,201,608	13,761,467
Sales and Services of Educational Departments	16,410,865	12,603,951
Auxiliary Enterprises:		
Residential Life (Net of Scholarships and Allowances: 2008 - $4,230,573; 2007 - $2,672,084)	43,599,172	38,908,958
Other	8,823,332	8,807,124
Other Operating Revenues	3,658,295	2,391,188
Total Operating Revenues	$ 205,666,146	$ 192,134,631
Operating Expenses:		
Personnel Services	$ 193,246,069	$ 181,170,578
Benefits (See Note J)	63,418,317	59,719,361
Utilities	10,067,117	9,002,330
Repairs and Maintenance	14,518,914	12,623,133
Other Supplies and Expenses	75,632,944	68,742,163
Student Aid	6,567,478	5,994,656
Depreciation	16,033,108	15,228,897
Total Operating Expenses	$ 379,483,947	$ 352,481,118
Operating Income/(Loss)	$ (173,817,801)	$ (160,346,487)
Non-Operating Revenues/(Expenses):		
Federal and State Scholarship and Grants (See Note B)	$ 35,206,521	$ 31,973,890
State Appropriations	141,253,533	138,634,176
Investment Income	17,089,020	15,998,849
Interest on Capital Asset Related Debt	(5,733,666)	(5,567,224)
Private Gifts	8,762,676	3,653,610
Other Non-Operating Income	2,301,393	3,174,479
Net Non-Operating Revenues/(Expenses)	$ 198,879,477	$ 187,867,780
Income Before Other Revenues, Expenses, Gains or Losses	$ 25,061,676	$ 27,521,293
Capital Appropriation	3,363,151	2,621,019
Capital Gifts	7,896,885	12,138,655
Increase in Net Assets	$ 36,321,712	$ 42,280,967
Net Assets – Beginning of Year	525,424,012	497,497,308
Restatement – Change in Accounting Policy (See Note B)	-	(14,354,263)
Net Assets – Beginning of Year as Restated	$ 525,424,012	$ 483,143,045
Net Assets – End of Year	$ 561,745,724	$ 525,424,012

Ball State University Foundation

Statement of Activities

Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:								
Contributions	$ 1,225,266	$ 13,255,764	$ 8,760,261	$ 23,241,291	$ 1,105,000	$ 4,188,140	$ 15,270,397	$ 20,563,537
Promotional Activities and Other Revenue	41,944	-	-	41,944	55,410	-	-	55,410
Investment Income	(5,365,900)	6,237,149	(3,192,604)	(2,321,355)	21,358,433	5,895,989	5,726,355	32,980,777
Change in Value of Split-Interest Agreements	(74,492)	(125,437)	(707,253)	(907,182)	-	167,378	54,997	222,375
Operating Support Fees	1,013,183	(168,740)	(844,443)	-	835,044	(192,418)	(642,626)	-
	$ (3,159,999)	$ 19,198,736	$ 4,015,961	$ 20,054,698	$ 23,353,887	$ 10,059,089	$ 20,409,123	$ 53,822,099
Net Assets Released from Restrictions	13,879,778	(15,111,713)	1,231,935	-	14,121,672	(14,258,048)	136,376	-
Total Revenues, Gains and Other Support	$ 10,719,779	$ 4,087,023	$ 5,247,896	$ 20,054,698	$ 37,475,559	$ (4,198,959)	$ 20,545,499	$ 53,822,099
Expenses:								
University Capital Projects	$ 24,476,772	$ -	$ -	$ 24,476,772	$ -	$ -	$ -	$ -
University Programs		-	-	-	18,223,419	-	-	18,223,419
Management and General	1,354,313	-	-	1,354,313	2,559,767	-	-	2,559,767
Fund Raising	3,554,566	-	-	3,554,566	1,832,009	-	-	1,832,009
Total Expenses	$ 29,385,651	$ -	$ -	$ 29,385,651	$ 22,615,195	$ -	$ -	$ 22,615,195
Change in Net Assets	$ (18,665,872)	$ 4,087,023	$ 5,247,896	$ (9,330,953)	$ 14,860,364	$ (4,198,959)	$ 20,545,499	$ 31,206,904
Net Assets, Beginning of Year	48,225,761	48,595,356	117,799,603	214,620,720	33,365,397	52,794,315	97,254,104	183,413,816
Net Assets, End of Year	$ 29,559,889	$ 52,682,379	$ 123,047,499	$ 205,289,767	$ 48,225,761	$ 48,595,356	$ 117,799,603	$ 214,620,720

See Note A in Notes to Financial Statements

Ball State University

Statement of Cash Flows
June 30, 2008 and 2007

		2008		2007 Restated and Reclassified
Source / (Uses) of Cash:				
Operating Activities:				
Tuition and Fees	$	106,655,429	$	103,719,562
Grants and Contracts		21,178,589		20,689,519
Payments to Suppliers		(75,978,927)		(62,184,380)
Payment for Maintenance and Repair		(14,518,914)		(12,623,133)
Payments for Utilities		(10,067,117)		(9,002,330)
Payments for Personnel Services		(191,303,169)		(180,942,303)
Payments for Benefits		(70,520,384)		(63,668,868)
Payments for Scholarships and Fellowships		(6,782,906)		(4,433,318)
Auxiliary Enterprise Charges:				
Room and Board		43,682,354		38,553,058
Other		9,481,817		7,952,130
Sales and Services of Educational Activities		16,848,728		12,017,315
Other Receipts/Disbursements/Advances		3,635,786		1,530,956
Net Cash Provided/(Used) by Operating Activities	$	(167,688,714)	$	(148,391,792)
Non-Capital Financing Activities:				
Federal and State Scholarships and Grants	$	35,206,521	$	31,973,890
State Appropriations		144,592,938		142,711,238
William D. Ford Direct Lending Receipts		55,341,412		53,381,980
William D. Ford Direct Lending Disbursements		(55,341,412)		(53,381,980)
PLUS Loans Receipts		25,641,458		29,473,548
PLUS Loans Disbursements		(25,641,458)		(29,473,548)
Private Gifts		13,895,506		(8,086,794)
Foundation Receipts		1,584,588		3,788,384
Foundation Disbursements		(1,584,588)		(3,788,384)
Other Non-Operating Revenue		2,301,393		3,174,479
Other Receipts		(2,728,172)		2,459,294
Net Cash Provided/(Used) by Non-Capital Financing Activities	$	193,268,186	$	172,232,107
Capital Financing Activities:				
Proceeds from Capital Debt	$	65,650,249	$	-
Capital Appropriations		3,363,151		2,621,019
Capital Gifts		7,896,885		12,138,655
Unamortized Bond Premium		(463,295)		(185,837)
Purchases of Capital Assets		(29,797,003)		(57,022,917)
Principal Paid on Capital Debt		(27,233,003)		(6,854,881)
Interest Paid on Capital Debt		(5,038,450)		(5,611,621)
Deposits with Trustee		(2,513,468)		823,046
Net Cash Provided/(Used) by Capital Financing Activities	$	11,865,066	$	(54,092,536)
Investing Activity:				
Proceeds from Sales and Maturities of Investments	$	216,001,165	$	58,681,745
Interest on Investments		13,957,809		13,052,406
Purchase of Investments		(259,271,349)		(96,490,530)
Net Cash Provided/(Used) by Investing Activities	$	(29,312,375)	$	(24,756,379)
Net Increase/(Decrease) in Cash	$	8,132,163	$	(55,008,600)
Cash – Beginning of the Year	$	23,229,424	$	78,238,024
Cash – End of the Year		31,361,587		23,229,424
Net Increase/(Decrease) in Cash	$	8,132,163	$	(55,008,600)

Ball State University

Statement of Cash Flows
June 30, 2008 and 2007

		2008		2007 Restated and Reclassified
Reconciliation of Net Operating Revenues/(Expenses) to Net Cash Provided/(Used) by Operating Activities:				
Operating Income/(Loss)	$	(173,817,801)	$	(160,346,487)
Adjustments to Reconcile Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:				
Depreciation Expense		16,033,108		15,228,897
Equipment Retired		1,727,556		1,291,259
Changes in Assets and Liabilities:				
Operating Receivables, Net		(3,634,045)		(5,210,362)
Inventories		(80,665)		(435,106)
Other Assets		(7,173,058)		5,144
Accounts Payable		(31,971)		1,863,998
Deferred Revenue		1,379,835		190,763
Deposits Held for Others		(70,167)		739,433
Compensated Absences		(116,300)		111,254
Advance on Long Term Grants		(4,541,278)		(5,170,462)
Long Term State Appropriations Receivable		3,339,406		3,339,406
Long Term Accounts and Notes Receivable		(703,334)		471
Net Cash Provided/(Used) by Operating Activities	$	(167,688,714)	$	(148,391,792)

Ball State University
Foundation

Statement of Cash Flows
Years Ended June 30, 2008 and 2007

		2008		2007
Operating Activities:				
Change in Net Assets	$	(9,330,953)	$	31,206,904
Items not Requiring/(Providing) Cash:				
Depreciation and Amortization		59,196		47,472
Bad Debt Expense		169,633		242,117
Net Unrealized (Gain)/Loss on Investments		8,262,508		(23,105,884)
Net (Gain)/Loss on Sales of Investments		(5,700,366)		(6,755,539)
Contributions of Marketable Equity Securities		(585,190)		(1,243,097)
Contributions Restricted for Long-Term Investment		(8,760,261)		(15,221,495)
Net Change in Value of Split-Interest Agreements		975,283		285,569
Changes In:				
Contributions Receivable, Including Amortization of Discount on Pledges Receivable		(2,616,507)		(7,594,060)
Interest and Dividends Receivable and Other Assets		18,207		(391)
Accounts Payable and Accrued Expenses		(4,251,849)		7,813,756
Net Cash Provided by Operating Activities	$	(21,760,299)	$	(14,324,648)
Investing Activities:				
Purchase of Property and Equipment	$	(333,803)	$	(912,371)
Purchase of Property Held for Sale		(10,091)		(5,000)
Purchase of Investments		(174,677,227)		(92,923,666)
Sales and Maturities of Investments		181,919,144		92,127,798
Note Receivable		1,174,712		805,726
Net Increase in Cash Surrender Value of Life Insurance		(52,626)		7,789
Net Cash Used in Investing Activities	$	8,020,109	$	(899,724)
Financing Activities:				
Net borrowings under line of credit agreement	$	5,000,000	$	-
Proceeds from Contributions Restricted for Investment in Permanent Endowment		8,760,261		15,221,495
Net Increase/(Decrease) in Cash	$	20,071	$	(2,877)
Cash – Beginning of the Year		227,972		230,849
Cash – End of the Year	$	248,043	$	227,972
Interest Paid	$	422,978	$	530,790

See Note A in Notes to Financial Statements

Ball State University
Notes to Financial Statements
June 30, 2008

Note A – Significant Accounting Policies

Reporting Entity

Ball State University is a public institution of higher education governed by a nine-member Board of Trustees in accordance with IC 20-12-57.5. The University is considered to be a component unit of the State of Indiana because the Governor of Indiana appoints the Trustees, one of whom is a full-time student at the University and two of whom are nominated or selected by the Ball State University Alumni Association. All members of the Board of Trustees are appointed for terms of four years, except for the student member whose term is two years. No more than six of the non-student Trustees may be of the same sex, and at least one of them must be a resident of Delaware County, Indiana.

Ball State University is included in the State's financial statements as a discrete component unit. Transactions with the State of Indiana relate primarily to appropriations for operations, repairs and rehabilitations and debt service for academic buildings; appropriations and other revenues 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 are recorded when received.

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

Operating Revenues

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

Student Tuition and Fees

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

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

Accounts Receivable and Notes Receivable

Accounts Receivable and Notes Receivable are both reported net of a calculated reserve for uncollectible items. The reserves as of June 30, 2008, and June 30, 2007, were $3,862,308 and $3,490,415 respectively for accounts receivable. For notes receivable, the reserves were $1,593,147 and $1,593,147 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 and land improvements, infrastructure, buildings and building improvements, construction in progress, and equipment and are recorded at cost or, for contributed assets, at fair value at the date of acquisition. All land and building acquisitions are capitalized. Capital assets also include land improvements and infrastructure costing in excess of $100,000. Building improvements are capitalized if the project costs more than $100,000 or twenty percent of the building's replacement value and either extends the useful life of the building, changes the use or purpose of the original building, or expands the total square footage of the building. The University capitalizes equipment with a cost of $5,000 or more and a useful life in excess of one year. Construction costs that cross fiscal years are capitalized as Construction in Progress, but not depreciated until the assets are placed in service. Non-capital equipment and facility costs, routine repairs, and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, generally fifty years for buildings, ten to fifty years for exhaustible land improvements, and three to ten years for equipment. Land and inexhaustible land improvements are not depreciated. The library collection is not depreciated. All items in the collection are deemed to retain their full value if they are still on hand. All new additions to the collection are treated as an expense at the time of purchase.

The art collection, housed primarily in the 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. 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 – Reclassifications/Restatements

Certain reclassifications and restatements have been made to the June 30, 2007, statements for comparative purposes. The net effect of the reclassifications and restatements are outlined below.

	Prior to Reclassification / Restatement	Reclassification / Restatement Amount	After Reclassification / Restatement	
Statement of Net Assets:				
Noncurrent Assets:				
Accounts and Notes Receivable, Net	$ 8,203,101	$ 1,341,508	$ 9,544,609	-A
Capital Assets, Net	$ 416,848,783	$ (16,845,618)	$ 400,003,165	-A, C
Net Assets:				
Invested in Capital Assets Net of Related Debt	$ 297,508,636	$ (16,845,618)	$ 280,663,018	-C
Unrestricted	$ 220,739,121	$ 1,341,508	$ 222,080,629	-A
Statement of Revenues, Expenditures:				
Operating Revenues:				
Federal Grants and Contracts	$ 22,794,086	$ (11,860,672)	$ 10,933,414	-B
State Grants and Contracts	$ 21,025,336	$ (20,113,218)	$ 912,118	-B
Operating Expense:				
Depreciation	$ 14,079,050	$ 1,149,847	$ 15,228,897	-C
Nonoperating Revenues:				
Federal and State Scholarships and Grants	$ -	$ 31,973,890	$ 31,973,890	-B
Net Assets-Beginning of Year	$ 497,497,308	$ (14,354,263)	$ 483,143,045	-C

Notes:

A - Reclassification: move the cost of two buildings from Capital Assets to Accounts and Notes Receivable. The Foundation purchased two properties for $1,341,508 on behalf of the University in lieu of paying the University certain fund raising expenses during FY 2004. THe Foundation holds title to both properties but an agreement between the University and the Foundation gives the proceeds of any sale of the properties to the University. The University originally recorded the properties as a capital asset but did not record depreciation.

B - Reclassification: Statement No. 24 states that Non Exchange Transactions should be reported as Non-Operating Revenue.

C - Restatement: Land Improvements were amended due to the recognition of a change in estimated future benefits, the pattern of consumption of those benefits, and the information available to the entity about those benefits; which was effected by changing the depreciable lives on the improvements to a thirty year life.

Note C – Compensated Absences

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

Note D – Capital Assets

	Book Value July 1, 2007	Additions	Deductions	Book Value June 30, 2008
Land and Inexhaustible Improvements	$ 13,021,263	$ 1,528,143	$ -	$ 14,549,406
Exhaustible Land Improvements	33,987,178	1,921,496	-	35,908,674
Infrastructure	14,397,838	1,112,655	-	15,510,493
Educational Buildings	299,166,551	1,108,458	1,296,955	298,978,054
Utility Buildings	15,139,101	-	-	15,139,101
Educational Equipment	41,538,212	4,698,062	3,125,322	43,110,952
Auxiliary Enterprise Buildings	206,607,598	5,843,675	515,460	211,935,813
Auxiliary Enterprise Equipment	12,610,127	527,719	3,451,975	9,685,871
Construction in Process	2,046,325	12,858,860	-	14,905,185
Other Property	689,650	197,935	-	887,585
Total	$ 639,203,843	$ 29,797,003	$ 8,389,712	$ 660,611,134
Less Accumulated Depreciation:				
Infrastructure	$ 3,518,372	$ 343,587	$ -	$ 3,861,959
Exhaustible Land Improvements	15,504,111	1,079,266	-	16,583,377
Educational Buildings	101,692,909	5,979,560	165,719	107,506,750
Utility Buildings	7,055,645	302,781	-	7,358,426
Educational Equipment	30,585,017	3,566,772	2,837,955	31,313,834
Auxiliary Enterprise Buildings	70,969,493	4,239,481	232,297	74,976,677
Auxiliary Enterprise Equipment	9,833,333	511,508	3,426,185	6,918,656
Other Property	41,798	10,153	-	51,951
Total	$ 239,200,678	$ 16,033,108	$ 6,662,156	$ 248,571,630
Capital Assets, Net	$ 400,003,165	$ 13,763,895	$ 1,727,556	$ 412,039,504

Note E – Notes Payable

A loan agreement in the amount of $1,500,000 dated June 1, 2006, was executed with Mutual Federal Savings Bank, Muncie, Indiana, 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 was due on June 1, 2008, but was paid early by the University on March 18, 2008. Interest expense for the fiscal year ended June 30, 2008, was $47,475.

Note F – 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.

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 were used to partially fund construction of Park Residence Hall and the expansion and renovation of Woodworth Dining Hall.

Student Fee Bonds, Series I, in the amount of $38,770,000, 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 were used to fund construction and reconfiguration of the David Letterman Communication and Media Building and to fund the cost of issuance and a certain amount of capitalized interest.

Student Fee Bonds, Series N, in the amount of $63,615,000, were dated and issued on January 30, 2008. Proceeds from Series N bonds will be used to fund a portion of the improvements to the University's heating and cooling energy generation operation and to refund portions of the outstanding Student Fee Bonds remaining in Series I and K.

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. The current portion of Unamortized Premium on Bonds and Capitalized Interest on Parking Bonds, and Unamortized Deferred Costs are reflected in the Statement of Net Assets as Accounts Payable and Accrued Liabilities.

	Long Term Liability			
	June 30, 2008		June 30, 2007	
	Current Portion	Noncurrent Portion	Current Portion	Noncurrent Portion
Note Payable	$ -	$ -	$ 1,500,000	$ -
Outstanding Bonds Payable	8,021,575	147,700,569	6,048,003	111,792,144
Notes and Bonds Payable	$ 8,021,575	$ 147,700,569	$ 7,548,003	$ 111,792,144
Unamortized Premiums on Bonds	378,558	5,898,817	185,837	3,018,948
Capitalized Interest on Parking Bonds	238,425	222,787	231,997	419,344
Unamoritized Deferred Costs	(187,579)	(1,125,478)	-	-
Total	$ 8,450,979	$ 152,696,695	$ 7,965,837	$ 115,230,436

Long term bonds outstanding at June 30, 2008, were:

	Date of Issue	Original Issue	Retired 2007-2008	Outstanding June 30, 2008
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	98,003	177,144
Parking System Revenue Bonds of 2003:				
Current Interest, 2.00% to 5.00%	08/14/03	3,985,000	65,000	3,740,000
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	1,190,000	32,970,000
Student Fee Bonds, Series I:				
Current Interest, 3.25% to 5.20%	01/01/99	38,770,000	8,605,000	13,415,000
Student Fee Bonds, Series K:				
Current Interest, 4.00% to 4.60%	01/03/02	5,700,000	720,000	2,370,000
Term Bonds, 5.25% to 5.75%	01/03/02	16,275,000	13,510,000	2,765,000
Student Fee Bonds, Series L:				
Current Interest, 3.00% to 5.50%	07/21/04	16,425,000	815,000	14,320,000
Student Fee Bonds, Series M:				
Current Interest, 3.00% to 5.00%	12/15/04	19,355,000	730,000	17,915,000
Term Bonds, 3.80%	12/15/04	1,925,000	-	1,925,000
Student Fee Bonds, Series N:				
Current Interest, 3.50% to 5.00%	01/30/08	63,615,000	-	63,615,000
		$ 207,630,942	$ 25,733,003	$ 155,722,144

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
2009	$ 8,021,575	$ 6,881,959
2010	8,105,569	6,796,380
2011	8,570,000	6,212,233
2012	8,940,000	5,842,872
2013	9,315,000	5,458,325
2014-2018	41,270,000	21,727,063
2019-2023	41,925,000	11,955,224
2024-2028	29,575,000	2,707,177
Total	$ 155,722,144	$ 67,581,233

Note G – 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.

Proceeds of Student Fee Bonds, Series N, dated January 30, 2008, were used to refund a portion of the outstanding Student Fee Bonds, Series I and a portion of the outstanding Student Fee Bonds, Series K and to provide funding for the renovation of the University's heat plant. The refunding resulted in an accounting loss of $1,500,635 which is being amortized to interest expense.

Through the refunding, the University reduced its aggregate debt service payment by $1,075,662, which will be realized over the next sixteen years. There was an economic gain (difference between the present values of the old and new debt service payments) of $791,737 on the refinancing activity. The entire gain on this transaction accrues to the State of Indiana in that it reduces the amount of fee replacement funds provided to the University by the State.

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, 2012.

At June 30, 2008, the unpaid principal for the defeased Building Facilities Fee Bonds was $33,330,000.

Note H – Operating Leases

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related assets and liabilities are not recorded in the accompanying financial statements. The total rental expense under these agreements was $369,748 for the year ended June 30, 2008.

Future minimum lease payments on all significant operating leases with initial terms in excess of one year as of June 30, 2008 are as follows:

	Future lease Payments
2009	$ 305,928
2010	188,627
2011	158,655
2012	1,511
2013	1,511
2014-2018	1,511
Total	$ 657,743

Note I – Investments

Investments held in the name of the University at June 30, 2008, consisted of the following:

	Market
U.S. Government Agency Securities	$ 220,891,210
Certificates of Deposit	87,154,385
Money Market	2,000,000
Repurchase Agreement	779,966
Total	$ 310,825,561

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 agencies of the United States Government. At June 30, 2008, the University held Agency Securities totaling $220,891,210 comprised of the following:

	Market
Federal Home Loan Bank	$ 96,720,030
Federal Home Loan Mortgage Corporation	82,336,350
Federal National Mortgage Association	36,872,430
Federal Farm Credit	4,962,400
	$ 220,891,210

Certificates of deposit and interest-bearing deposit accounts at banks and savings banks incorporated under the laws of Indiana and national banking associations with banking offices in Indiana. At June 30, 2008, the University's certificates of deposit of $87,154,385 were comprised of:

	Market
The Huntington National Bank, Indianapolis, Indiana	$ 39,220,850
Irwin Union Bank & Trust Co., Columbus, Indiana	30,000,000
First Merchants Bank, N.A., Muncie, Indiana	9,271,385
Marshal & Ilsley Bank, Indianapolis, Indiana	8,662,150
	$ 87,154,385

Money market mutual funds comprised of US Treasury and Agency securities and commercial paper rated A-1 (Standard & Poor's) or P-1 (Moody's).

Repurchase agreements collateralized at 105 percent of the par value with United States Treasury and Agency securities.

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

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

All investments owned by the University are held in safekeeping by the issuing or selling bank or in a custodial account with a brokerage firm. The University's investment policy allows up to 20 percent of the University's investments to be placed in certificates of deposit and interest-bearing deposit accounts with a single financial institution, and up to five percent with a single issuer of commercial paper.

Cash deposits of $13,029,678, as well as certificates of deposit and interest-bearing deposit accounts are insured by the Federal Deposit Insurance Corporation up to $100,000; amounts exceeding $100,000 are insured by the Indiana Public Depository Fund.

Disclosures Related to Interest Rate Risk

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

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

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

Distribution of Investments

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

	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
Investment by type:				
Government Agencies	$ 220,891,210	$ 1,509,600	$ 3,028,950	$ 216,352,660
Certificates of Deposit	87,154,385	56,115,565	18,370,385	12,668,435
Money Market	2,000,000	2,000,000	-	-
Repurchase Agreement	779,966	779,966	-	-
Total Investments	$ 310,825,561	$ 60,405,131	$ 21,399,335	$ 229,021,095

Note J – Pension Plans and Other Post-Employment Benefits

Pension Plans

Public Employees' Retirement Fund

Ball State University contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time staff and service personnel are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) give the University authority to contribute to the plan and govern, through the PERF Board, most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of the member's contributions, set by state statute at three percent of compensation, plus the investment earnings credited to the member's account. Ball State University has elected to make the contributions on behalf of the member. For the fiscal year ended June 30, 2008, there were 1,172 employees participating in PERF with an annual pay equal to $45,588,398.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees' Retirement Fund, Harrison Building, Room 800, 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	$ 2,494,141
Interest on Net Pension Obligation	(81,721)
Adjustment to Annual Required Contribution	93,128
Annual Pension Cost	$ 2,505,548
Contributions Made	2,224,477
Increase/(Decrease) in Net Pension Obligation	$ 281,071
Net Pension Obligation, July 1, 2006	(1,127,189)
Net Pension Obligation, June 30, 2007	$ (846,118)

Contribution Rates:	
University	6.30%
Plan Members (paid by BSU)	3.00%
Actuarial Valuation Date	6/30/2007
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of projected payroll, closed
Amortization Period	30 years from 07-01-97
Asset Valuation Method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5.00%
Attributed to inflation	4.00%
Attributed to merit / seniority	1.00%
Cost-of-living adjustments	2.00%

Three Year Trend Information

Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	$ 1,804,664	88.11%	$ (1,524,247)
2006	$ 2,238,322	82.26%	$ (1,127,189)
2007	$ 2,505,548	88.78%	$ (846,118)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AL)	Excess/ (Unfunded) AL	Funded Ratio
07/01/2005	$ 51,392,225	$ 52,434,812	$ (1,042,587)	98.0%
07/01/2006	$ 60,675,270	$ 61,815,082	$ (1,139,812)	98.2%
07/01/2007	$ 67,546,127	$ 66,427,925	$ 1,118,202	101.7%

Date	Covered Payroll	Excess/ (Unfunded) AL as a Percent of Covered Payroll
07/01/2005	$ 41,584,121	(2.5)%
07/01/2006	$ 41,182,028	(2.8)%
07/01/2007	$ 42,394,759	2.6 %

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, 2008, there were 440 employees participating in TRF with annual pay equal to $23,555,776. The University contributes at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7.25 percent of covered payroll. The University's contributions to the plan, including those made to the annuity on behalf of the members, for the fiscal years ended June 30, 2008, 2007, and 2006, were $2,419,703, $2,470,540, and $2,637,012, 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 Alternate Pension Plan which is designed to provide benefits comparable to those under TRF and the supplementary plan.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the 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, in accordance with IC 21-38-3-3 and IC 21-38-7-3, to participate in a defined contribution plan administered by the same companies as the TRF supplementary retirement contribution. Benefit provisions are established and/or amended by the 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, 2008, the University contributed $11,149,775 to this plan for 1,562 participating employees with annual payroll totaling $90,870,209.

Early Retirement Program

Eligible employees may participate in an early retirement program. The plan provides a severance payment equivalent to 15 percent of the employee's final year's pay. Such payments are made in the final year of employment; therefore, no liability exists beyond the end of the fiscal year in which employment terminates. The plan also permits participants to select a cash settlement option in lieu of life insurance that is equal to 40 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, 2008, $434,700 is recorded as a liability representing payments to be made in 2009 and 2010 to employees who retired under the program by June 30, 2008.

Other Post-Employment Benefits
Retiree Health and Life Insurance Plans

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, 2008, approximately 1,766 participants were eligible and were receiving one or both of these benefits.

Plan Description

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

Funding Policy

The contribution requirements for members of the Plans are established by the Ball State University Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, as well as amounts necessary to prefund benefits as determined annually by the University. In addition, the University has followed a practice of contributing additional amounts generated by savings within the employee plans as well as the retiree plans. For the fiscal year ended June 30, 2008, the University contributed $6,977,806 for current claims and estimated applicable administrative costs and an additional $6,000,000 from Medicare prescription drug subsidies, rebates on prescription drugs, and savings generated within the employee and retiree plans this year and last year, in order to prefund benefits. Plan members receiving benefits contributed $2,482,440, or approximately 25 percent of the total premiums assessed, through their required contributions, which for health insurance ranged, for those not eligible for Medicare, from $87.60 to $259.74 per month for single coverage and $227.42 to $674.28 for family coverage. For those eligible for Medicare, the monthly premiums were $89.72 for medical and prescription drug coverage and $9.22 for optional dental coverage. These premium amounts were also paid by Medicare-eligible spouses for their coverage. Retiree life insurance monthly premiums are on a sliding scale based on coverage in the last year employed, with $37,500 being the maximum amount available for retirees. The monthly premium is $.07 per $1,000 of coverage.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation (asset) to the plan:

Annual required contribution	$	6,208,821
Interest on net OPEB obligation		465,662
Adjustment to annual required contribution		-
Annual OPEB cost	$	6,674,483
Contributions made		12,977,806
Increase (decrease) in net OPEB obligation	$	(6,303,323)
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	$	(6,303,323)

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 (subsequent financial reports will show two previous years data; not required for 2008 since this is the effective date for GASB Statement 45) were as follows:

	Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
Health Insurance	6/30/2008	$ 6,674,483	194.4%	$ (6,303,323)
Life Insurance	6/30/2008	$ -	- %	$ -

Funded Status and Funding Progress

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

As of June 30, 2007, the most recent actuarial valuation date, the health insurance plan was 86.6 percent funded. The actuarial accrued liability for benefits was $171,887,451, and the actuarial value of assets was $148,827,822, resulting in an unfunded actuarial accrued liability (UAAL) of $23,059,629. The covered payroll (annual payroll of active employees covered by the plan) was $136,645,256, and the ratio of UAAL to covered payroll was 16.9 percent. As of the same date, the life insurance plan was 132.6 percent funded. The actuarial accrued liability for benefits was $19,036,901, and the actuarial value of assets was $25,238,907, resulting in an unfunded actuarial accrued liability (UAAL) of ($6,202,006). The covered payroll (annual payroll of active employees covered by the plan) was $136,645,256, and the ratio of the UAAL to covered payroll was (4.5 percent).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, will present in future reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the June 30, 2007, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.50 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on plan assets, and is appropriate as long as the University makes annual contributions (through a combination of benefits paid from general assets and contributions to the VEBA) that are at least as large as the ARC. If the OPEB is "unfunded," the ARC would be calculated using a discount rate reflective of the University's internal rates of return, which would result in a significantly larger ARC. The actuarial assumptions also included an annual healthcare cost trend rate initially of nine percent for non-Medicare medical, eight percent for Medicare eligible medical, ten percent for prescription drugs, five percent for dental, and four percent for administrative costs, reduced to an ultimate rate of four percent for administrative costs and five percent for everything else after eight years. A payroll growth rate of four percent is assumed throughout. The actuarial value of the plan assets is market value. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2007, was 30 years.

The VEBA trust fund established for the sole purpose of funding future retiree health care had the following activity for the year ended June 30, 2008:

Market Value at July 1, 2007	$	148,827,822
Transfer from Ball State University		6,000,000
Reinvested Net Earnings		14,330,972
Unrealized Gain (Loss)		(26,321,660)
Fund Balance at June 30, 2008	$	142,837,134

These funds cannot under any circumstances revert to the University.

The Life Insurance Continuance Fund established for the sole purpose of funding future retiree life insurance benefits had the following activity for the year ended June 30, 2008:

Fund Balance at July 1, 2007	$	25,502,751
Reinvested Net Earnings		1,821,707
Unrealized Gain (Loss)		(4,097,939)
Death Claims and Related Charges		(905,316)
Fund Balance at June 30, 2008	$	22,321,203

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 presently involved as a defendant or codefendant in various matters of litigation. The University's administration believes that the ultimate disposition of any of these matters would not have a material adverse effect upon the financial condition of the University.

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 $5.2 million at June 30, 2008. Claims activity for the year was as follows:

Unpaid health care claims at July 1, 2007	$ 5,181,000
Claims incurred	41,144,152
Claims paid	40,345,152
Unpaid health care claims at June 30, 2008	$ 5,980,000

Ball State University
Required Supplemental Information
June 30, 2008

Other Post-Employment Benefits
Retiree Health and Life Insurance Plans

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Health	7/1/07	$ 148,827,822	$ 171,887,451	$ 23,059,629	86.58%	$ 136,645,256	16.9 %
Life	7/1/07	$ 25,238,907	$ 19,036,901	$ (6,202,006)	132.58%	$ 136,645,256	(4.5)%

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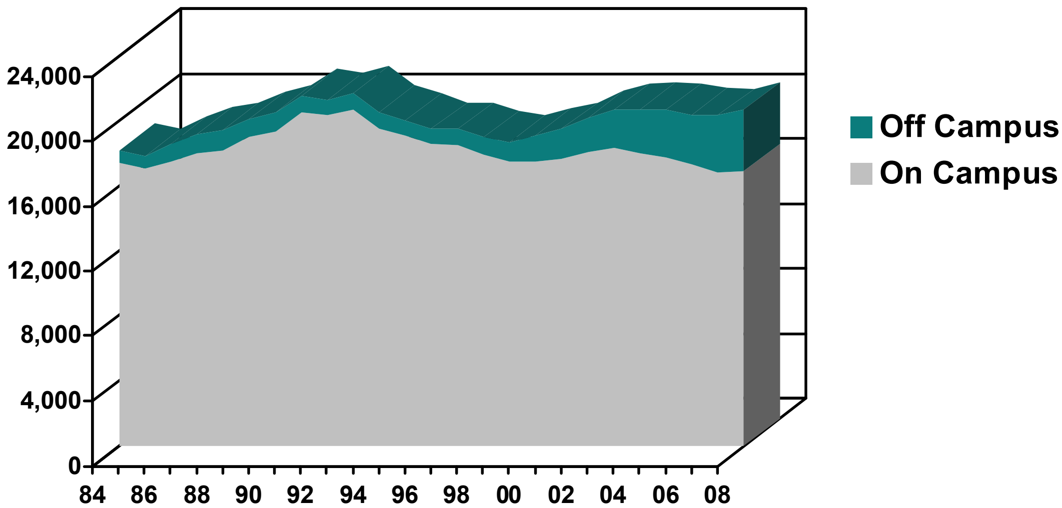
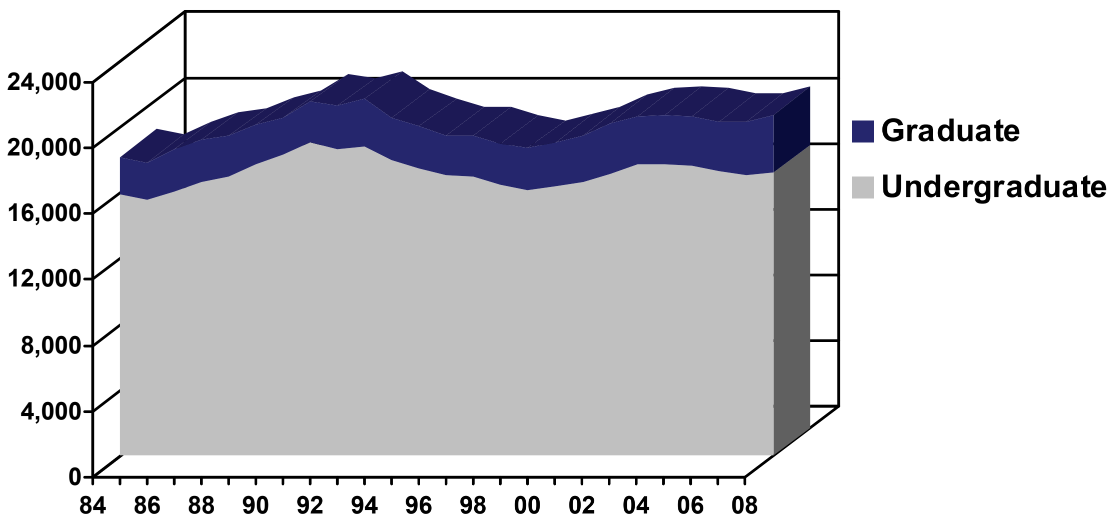
Supplemental Information

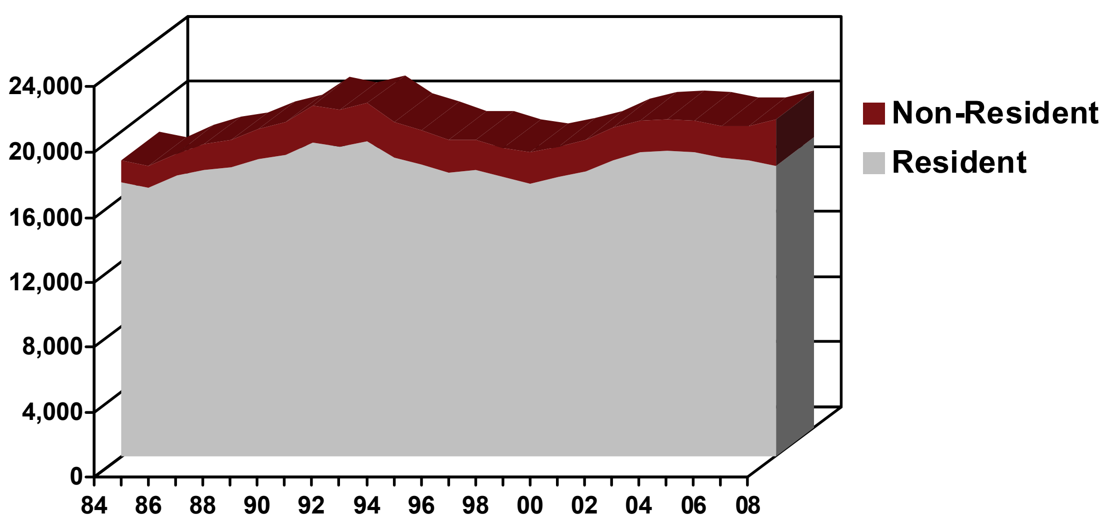
The following supplemental information has not been subjected to the auditing procedures applied to the basic financial statements and accordingly, the State Board of Accounts expresses no opinion thereon.

Student Enrollment

Fall Headcount 1984-2008

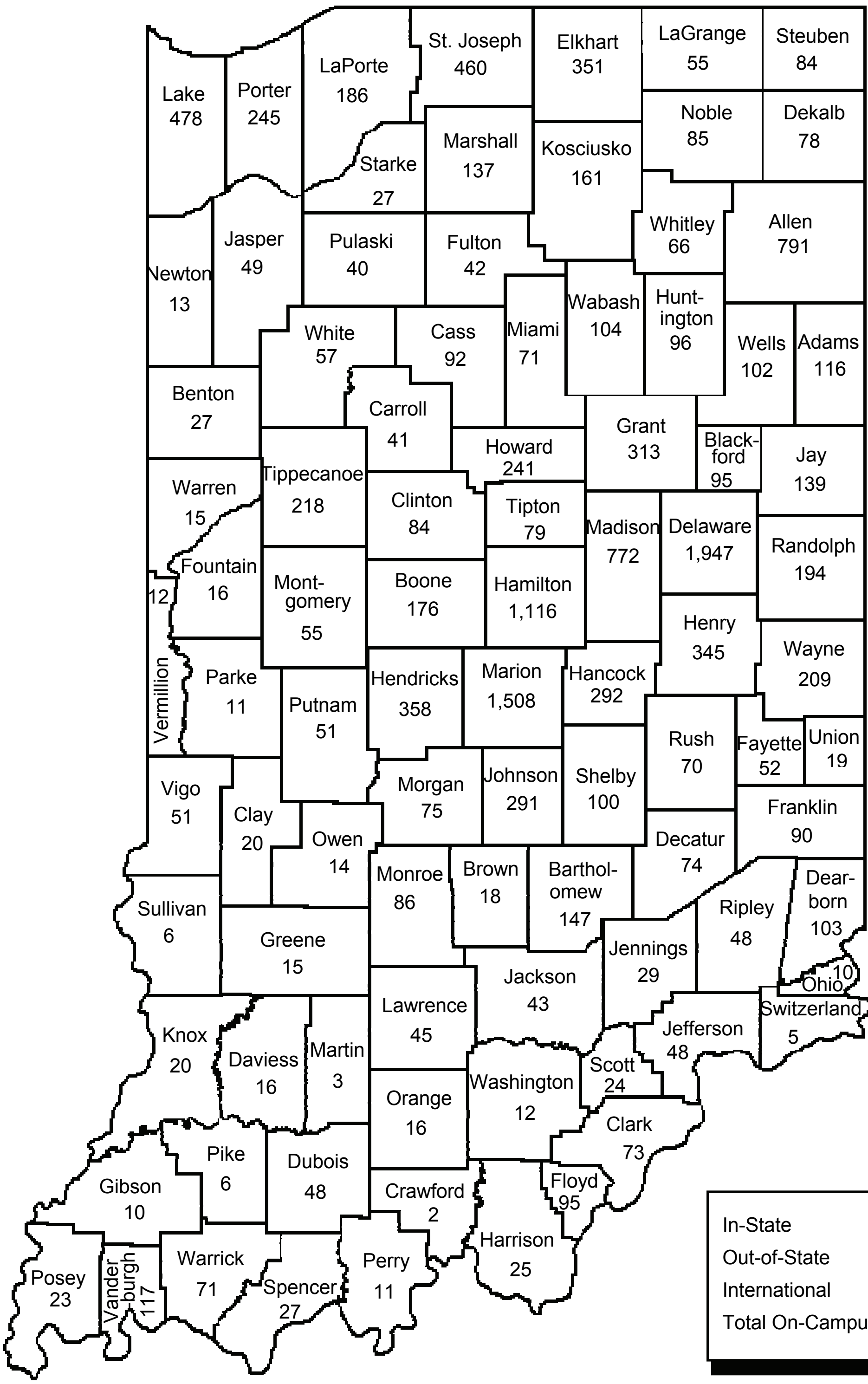






Campus Enrollment by County

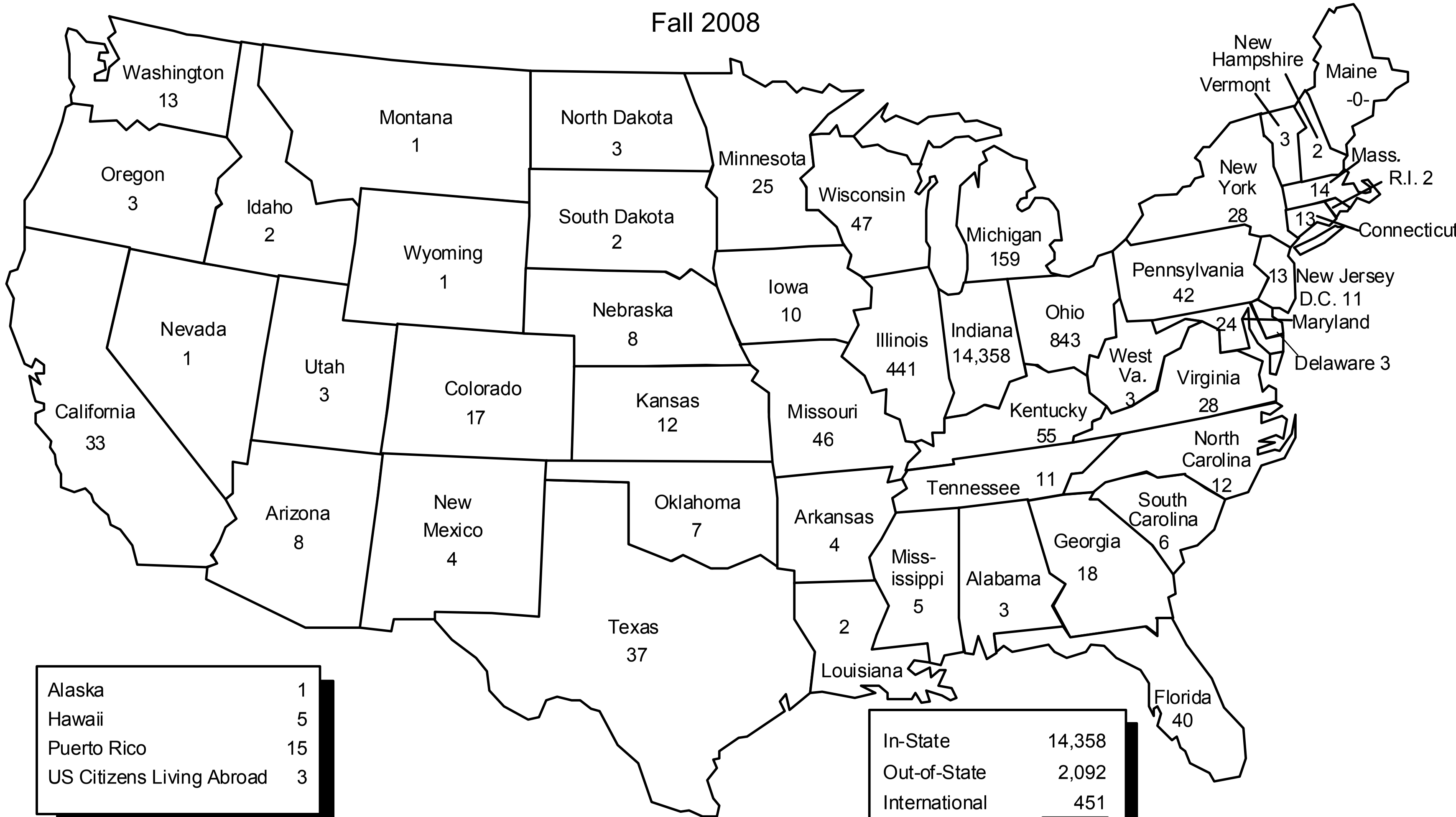
Fall 2008



In-State	14,358
Out-of-State	2,092
International	451
Total On-Campus	16,901

Campus Enrollment by State

Fall 2008

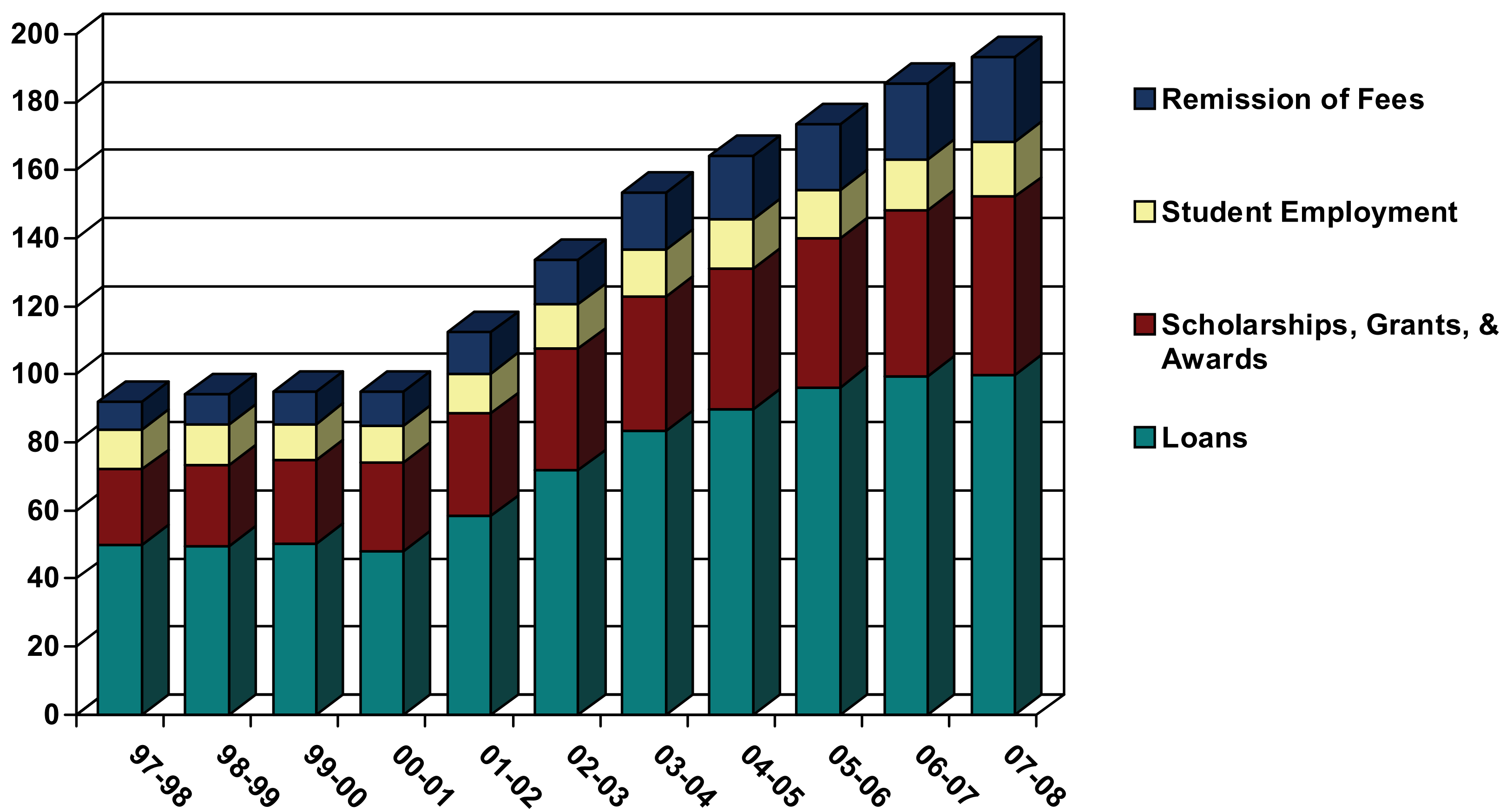


Alaska	1
Hawaii	5
Puerto Rico	15
US Citizens Living Abroad	3

In-State	14,358
Out-of-State	2,092
International	451
Total On-Campus	16,901

Student Financial Assistance

1997-98 through 2007-08
(in millions of dollars)



Ball State University

Schedule of Annual Requirements for Principal and Interest

Revenue Bonds—Parking Facilities

Year Ended June 30, 2008

June 30	Principal	Interest	Total	Unliquidated Balance
2008				$ 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	$ 6,427,144	$ 3,430,497	$ 9,857,641	

Revenue Bonds—Housing and Dining

Year Ended June 30, 2008

June 30	Principal	Interest	Total	Unliquidated Balance
2008				$ 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

Ball State University

Schedule of Annual Requirements for Principal and Interest

Revenue Bonds—Housing and Dining

Year Ended June 30, 2008

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	$ 32,970,000	$ 15,222,374	$ 48,192,374	

Student Fee Bonds

Year Ended June 30, 2008

June 30	Principal	Interest	Total	Unliquidated Balance
2008				$ 116,325,000
2009	$ 6,625,000	$ 4,916,022	$ 11,541,022	109,700,000
2010	6,670,000	4,873,674	11,543,674	103,030,000
2011	6,945,000	4,590,537	11,535,537	96,085,000
2012	7,250,000	4,289,617	11,539,617	88,835,000
2013	7,550,000	3,977,295	11,527,295	81,285,000
2014	7,460,000	3,665,140	11,125,140	73,825,000
2015	6,985,000	3,377,619	10,362,619	66,840,000
2016	5,885,000	3,122,514	9,007,514	60,955,000
2017	5,280,000	2,863,876	8,143,876	55,675,000
2018	5,550,000	2,587,063	8,137,063	50,125,000
2019	5,840,000	2,295,913	8,135,913	44,285,000
2020	6,140,000	1,994,845	8,134,845	38,145,000
2021	6,455,000	1,681,613	8,136,613	31,690,000
2022	5,235,000	1,393,075	6,628,075	26,455,000
2023	5,500,000	1,132,450	6,632,450	20,955,000
2024	5,765,000	863,063	6,628,063	15,190,000
2025	4,325,000	619,088	4,944,088	10,865,000
2026	4,540,000	401,476	4,941,476	6,325,000
2027	3,090,000	214,738	3,304,738	3,235,000
2028	3,235,000	68,744	3,303,744	-
Total	$ 116,325,000	$ 48,928,362	$ 165,253,362	

Ball State University

Schedule of Annual Requirements for Principal and Interest

Total Revenue and Student Fee Bonds

Year Ended June 30, 2008

June 30	Principal	Interest	Total	Unliquidated Balance
2008				$ 155,722,144
2009	$ 8,021,575	$ 6,881,958	$ 14,903,533	147,700,569
2010	8,105,569	6,796,379	14,901,948	139,595,000
2011	8,570,000	6,212,233	14,782,233	131,025,000
2012	8,940,000	5,842,872	14,782,872	122,085,000
2013	9,315,000	5,458,325	14,773,325	112,770,000
2014	9,300,000	5,072,470	14,372,470	103,470,000
2015	8,905,000	4,701,024	13,606,024	94,565,000
2016	7,900,000	4,349,332	12,249,332	86,665,000
2017	7,400,000	3,989,194	11,389,194	79,265,000
2018	7,765,000	3,615,043	11,380,043	71,500,000
2019	8,160,000	3,221,643	11,381,643	63,340,000
2020	8,565,000	2,812,048	11,377,048	54,775,000
2021	8,995,000	2,384,307	11,379,307	45,780,000
2022	7,905,000	1,966,688	9,871,688	37,875,000
2023	8,300,000	1,570,538	9,870,538	29,575,000
2024	8,700,000	1,169,601	9,869,601	20,875,000
2025	7,390,000	796,945	8,186,945	13,485,000
2026	7,160,000	457,151	7,617,151	6,325,000
2027	3,090,000	214,738	3,304,738	3,235,000
2028	3,235,000	68,744	3,303,744	-
Total	$ 155,722,144	$ 67,581,233	$ 223,303,377	

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