Financial Report

Year Ended June 30, 2007

Ball State University

Muncie, Indiana

To

The President and Board of Trustees

Ball State University

This financial report presents

the financial position of

Ball State University at June 30, 2007,

and the results of activities for

the year then ended.

Thomas J. Kinghorn
Vice President for Business Affairs
and Treasurer

December 14, 2007

This financial report has been prepared

by the Office of Controller and Business Services

Ball State University, Muncie, Indiana 47306

Ball State University

2006-2007

Officers

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, 2007 and 2006. 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, 2007 and 2006, 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 December 12, 2007, on our consideration of Ball State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

STATE BOARD OF ACCOUNTS
State Board of Accounts

December 12, 2007

Ball State University
Management's Discussion and Analysis
June 30, 2007

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, 170 undergraduate degree programs, 88 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 2006, totaled 18,179 full-time equivalent students from a total headcount of 20,334. On-campus enrollment totaled 16,280 full-time equivalent students from a total headcount of 17,285, approximately 6,800 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 2006-2007 academic year, the University's staff and faculty (not including student employees and graduate assistants) totaled approximately 2,771 full-time and 327 part-time personnel. The campus facilities include 122 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, 2007, an objective record of the University's stewardship of its human, physical and financial resources. Ball State University's management has prepared and is responsible for the completeness and fairness of the financial statements and the related footnote disclosures included in this report, along with this discussion and analysis. The discussion and analysis is designed to provide an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions.

Using this Report

This financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows, prepared in accordance with *Statement No. 35 of the Governmental Accounting Standards Board, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, an Amendment of GASB Statement No. 34,* as well as subsequent applicable statements from the GASB. These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Important features of these statements, which are mandated by the Governmental Accounting Standards Board, include:

- Revenues that are charges for services and goods, including tuition and fees and non-capital grants, are recorded as operating revenues. This means that state appropriations, which are used primarily for operations, are required to be shown as non-operating revenue.
- Scholarship allowances are required to be recorded in three different places: as a reduction to tuition and fees, as a reduction to room and board and as an operating expense. The user must total the three amounts in order to ascertain the total scholarship aid received by students from the University. Not included in these amounts are scholarship aid received directly by students, as well as loan and work-study aid.
- Capital assets include construction in progress and infrastructure, as well as completed capital projects and capital acquisitions.

This financial report also includes, in addition to the basic financial statements referred to above, management's discussion and analysis, the report of independent auditors, notes to the financial statements and supplemental information. Included also, in accordance with GASB Statement No. 39, separately presented, are the financial statements and significant notes to the financial statements for the Ball State University Foundation. The Ball State University Foundation is a separate, not-for-profit corporation which solicits, collects and invests donations for the sole benefit of Ball State University. The Foundation's financial statements are presented in accordance with the reporting principles of the Financial Accounting Standards Board and therefore are not comparable to those of the University.

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 internal control aspects. In addition, business continuity plans have been updated and tested and the internal audit process expanded.

Strategic Plan

Ball State is currently at an exciting juncture in its nearly 90-year history. 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 one word – "distinctiveness." The health of the University, which is defined by quality students and quality faculty, relies on being known for unique qualities and attributes.

Ball State's new 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 developing solutions to real-world problems. Immersive learning seeks to serve, engage with, and learn from leaders in businesses, communities, the state, nation, and world.

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 higher quality 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 higher quality students 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.

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.

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 such as is underway at Ball State University today 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, 2007, as compared to the previous year. The University's capital assets, net of related debt, increased over the prior year by $48.5 million which represents a 19.5 percent increase over the prior year.

The University's operating budget for 2006-07, which was the second year of the current biennium was impacted by lower appropriations from the State of Indiana due to across-the-board reductions designed to bring the overall state budget into balance. Included in the biennial budget was 43 percent of the formula appropriation for renewal and replacement of academic and administrative buildings and infrastructure. In addition, the State, having withheld payment of one monthly appropriation in fiscal 2005, repaid $4.1 million of that amount during fiscal 2007, with the remaining $6.7 million 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.

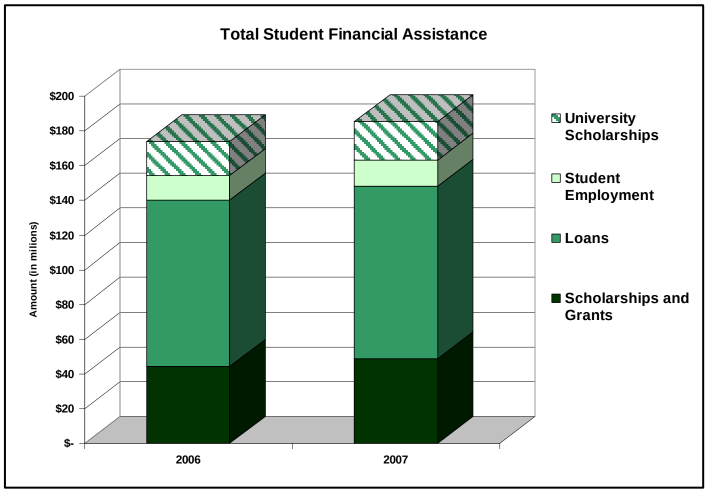
The University received 225 grant awards for research and other sponsored programs, totaling $18.1 million. This amount includes the award of a $5.0 million grant funded with monies that were received in fiscal year 2006 as a four-year advance funded grant from the Lilly Endowment. Included in the $18.1 million total, in addition to the Lilly Endowment, are significant grants from the Indiana Department of Education, Corporation for Public Broadcasting, NASA, Indiana Department of Administration, Indiana Department of Natural Resources, U. S. Departments of Education and Energy, and the Best Buy Children's Foundation. 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 64 percent.

During fiscal 2007, supporters of Ball State University contributed private gifts to the Ball State University Foundation totaling $16.7 million. In addition to funds received during the fiscal year, the University also obtained several major multi-year commitments in support of its new strategic plan. These gifts will be reflected in future fiscal year giving reports.

Based on the current actuarial analysis, the University's retiree health care liability is fully funded when the Medicare Retiree Drug Subsidy is factored into the evaluation. Ball State University is not unique in providing health care as a benefit for its retirees. A 2004 survey conducted by Watson Wyatt revealed that, of 263 institutions surveyed, 82 percent offered retiree health benefits. 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.

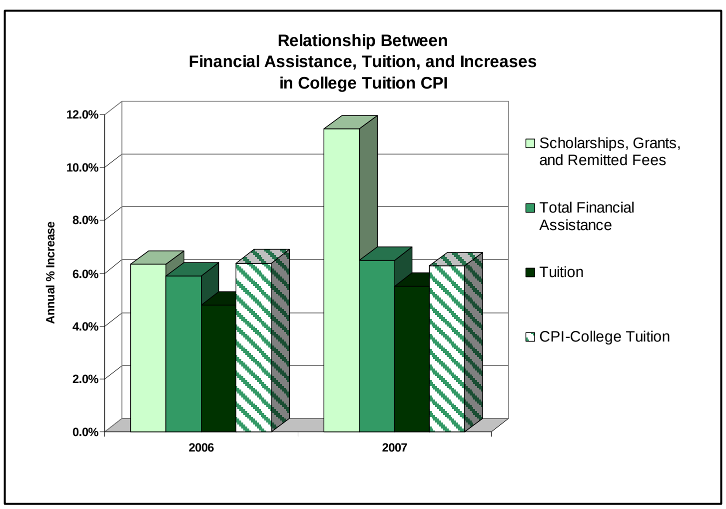
As of the June 30, 2007, actuarial study, Ball State University's liability for retiree health care is estimated to be $146.9 million if the actuarial effect of future Medicare Retiree Drug Subsidies is included, as it is under rules established by the Financial Accounting Standards Board (FASB) for non-governmental entities. The trust fund established to assist in financing this liability has a market value of $148.8 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 45.

Traditionally, colleges and universities provide access to higher education by discounting selected students' tuition and fees based on their financial need or merit. Using The College Board's definition of tuition discounting for undergraduate students, Ball State's 2006-07 discount rate was 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 2006-07, as the graph indicates, was over $185.0 million compared to $174.0 million in the prior year.

In 2007, grants, scholarships, and remitted fees, which is financial assistance excluding loans and student employment, increased by 11.5 percent. This increase included $3.8 million in additional scholarships, grants, and awards and $2.6 million in remitted fees. Including loans and student employment, all forms of financial assistance increased by 6.5 percent in 2007. These increases indicate the University has done a good job of increasing available scholarships and total assistance at a higher rate than the corresponding increase in its tuition and fees of 5.5 percent in 2007. Furthermore, the University's increase in tuition and fees is lower than the Consumer Price Index for College Tuition and Fees of 6.3 percent. The graph shows these comparisons for 2006 and 2007.



Ball State University was once again recognized in 2007 as one of the best universities in the Midwest by the Princeton Review. The Princeton Review also cited the University as one of the best 150 values among the most academically outstanding colleges in the nation, citing the University's nationally recognized programs in architecture, entrepreneurship, journalism, speech pathology, and telecommunications, as well as excellent and popular programs in business administration, criminal justice, and education. Among the other factors contributing to the ranking was the University's low cost of tuition and recent increases in financial aid.

Park Hall

David Letterman Communication and Media Building

Scheumann Football Stadium

Four major capital projects were substantially completed during the fiscal year including Park Hall that welcomed its first residents in August, 2007. Designed with student input, Park Hall provides accommodations for over 500 students, primarily in rooms clustered around semi-private baths, with a limited number of rooms with private baths. Seminar and multi-purpose rooms are included to facilitate living and learning opportunities for residents. Park Hall is the first new residence hall to be built on campus since 1969.

Construction was also completed in August 2007 on 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.

The major remodeling of the Scheumann Football Stadium was completed for the opening game in the fall with a new field turf playing field, expanded disabled accessibility, entertainment suites, club seating and improved game operations and support facilities.

Woodworth Dining Service expansion and renovation was also completed to provide a new dining experience for students. The near center of campus location will provide a popular venue for students living in the residence halls and those choosing to utilize a meal plan or to dine as a retail customer.

Woodworth Dining Service

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report in summary fashion the financial position of the University as a whole and on its activities, focusing on the University's net assets. These statements include all assets, liabilities, revenues and expenses, using the accrual basis of accounting. The only exceptions are 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, 2007.

Net Assets
June 30, 2007 and 2006

	2007	2006
Assets:		
Current Assets	$ 89,642,457	$ 130,259,590
Noncurrent Assets:		
Capital Assets, Net of Depreciation	416,848,783	375,196,175
Other	224,358,384	188,853,880
Total Assets	$ 730,849,624	$ 694,309,645
Liabilities:		
Current Liabilities	$ 50,650,101	$ 44,726,762
Noncurrent Liabilities	139,271,401	152,085,575
Total Liabilities	$ 189,921,502	$ 196,812,337
Net Assets:		
Invested in Capital Assets Net of Related Debt	$ 297,508,636	$ 249,001,147
Restricted	22,680,365	52,736,478
Unrestricted	220,739,121	195,759,683
Total Net Assets	$ 540,928,122	$ 497,497,308
Total Liabilities and Net Assets	$ 730,849,624	$ 694,309,645

Current and Other Assets

Current and other assets decreased slightly from the previous year, due primarily to a $15.2 million reduction in investments, attributable primarily to capital expenditures of funds raised and invested in prior years. Accounts Receivable, Net, and Unbilled Costs increased by $12.9 million, most of which is attributable to funds owed to the University by the Ball State University Foundation for the renovation and expansion of Scheumann Football Stadium.

Debt Administration

The University had $117.8 million of bond indebtedness outstanding at June 30, 2007, compared to $124.7 million outstanding the prior year end. 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 University has a $1.5 million note payable to Mutual Federal Savings Bank, Muncie, Indiana, to provide interim financing for the construction and renovation of surface parking areas on campus. More details regarding the University's bonds payable are presented in the Notes to Financial Statements.

Capital Assets

On June 30, 2007, the University had $297.5 million invested in capital assets, net of accumulated depreciation of $223.7 million and related debt of $119.3 million. Depreciation charges totaled $14.1 million for the current fiscal year. All of these amounts reflect cost of construction rather than replacement cost.


Dehority Complex


North Residence Hall


L.A. Pittenger Student Center

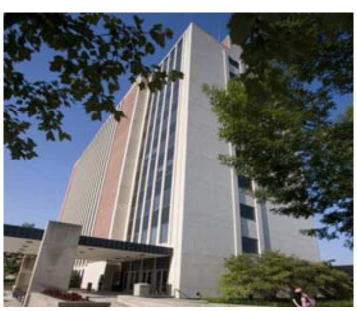
Major construction during the year included $6.6 million expended for construction of the new David Letterman Communication and Media Building, $20.6 million expended for construction of the new Park Hall, and $4.8 million expended for renovation of Woodworth Dining, all of which were funded from bond proceeds. Also, $12.1 million was utilized on the renovation and expansion of Scheumann Football Stadium. Funding for this expansion was provided by the Drive for Distinction Campaign and other private support.


Cardinal Creek Tennis Center

Initial work also began in 2007 on the major renovation of DeHority Complex and construction of the new North Residence Hall. In addition, a major renovation of the L.A. Pittenger Student Center began in 2007, and renovations were also made to Emens Auditorium and Cardinal Creek Tennis Center.

Current operating funds were utilized to purchase $6.5 million in capital equipment, some of which replaced mostly fully-depreciated equipment dispositions originally costing $6.8 million.

Major renovations are needed in many of the academic buildings on the campus. For the 2007-09 biennium, the University has identified as its highest priority three academic buildings: Teachers College (constructed in 1966), Applied Technology (constructed in two phases between 1948 and 1950), and North Quadrangle (constructed in three phases in 1926, 1932, and 1953). It is estimated that the Phase I cost to begin renovation of these three buildings and upgrade campus utility infrastructure will be $33.0 million. Phase I of this project has been approved by the Indiana General Assembly.


Teachers College


Applied Technology


North Quadrangle

The University also has a heat and chiller plant that needs major renovation, including retiring and replacing coal-fired boilers, the oldest of which is 66 years old. The heat plant renovation will bring the University into compliance with federally mandated air pollution standards and ensure the ability to supply an adequate amount of steam for the expanding campus. The project was authorized by the Indiana General Assembly and is currently estimated to cost $44.9 million. The schedule for completion is 2010.


Heat and Chiller Plant

Also scheduled for completion in 2010 is the expansion and improvement of the Student Recreation and Wellness Facilities. Current plans for the facilities include a suspended running track, a cardio fitness area, a multipurpose sports forum, a rock climbing wall, an outdoor pursuits center, and expanded public and circulation space. This project will support healthier lifestyles, enhance student recruitment and retention, and relieve recreational space constraints that currently exist. The project has been approved by the Indiana General Assembly and is estimated to cost $39.0 million.


Student Recreation and Wellness Facility

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

Net Assets

In addition to net capital assets, the university had other net assets totaling $243.4 million. This includes $22.7 million in restricted net assets which was comprised of: $0.9 million in nonexpendable endowment restricted for student scholarships, $2.6 million restricted for debt service, $2.2 million restricted for student loans, $12.1 million restricted for construction, and $4.9 million restricted for external grants.

The remaining balance of $220.7 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, 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.

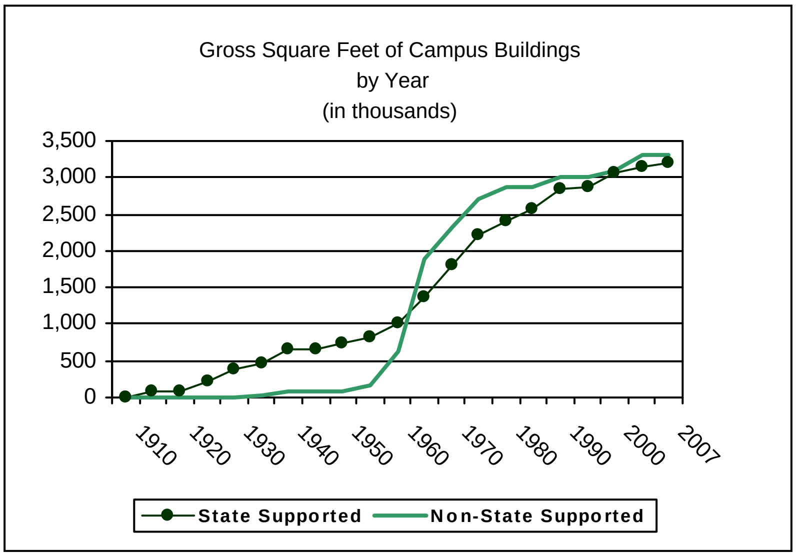
One of the major challenges confronting the University is the stewardship of facilities and equipment resources. This includes modernization and renewal of 122 buildings (96 of which are considered major) totaling 7.0 million gross square feet. Campus buildings involve 33 acres of roof area, contain 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 44 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 19 miles of sewers; over seven miles of water piping; over 48 miles of electrical power distribution wiring; and over 4,865 miles of communication cable to connect buildings. Above the ground, the University has 1,307 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 $1.6 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. 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. During the 2001-2003 biennium, the State's annual capital appropriation for renewal and replacement of academic and administrative facilities was reduced, which resulted in the loss of over $8.0 million in funding for necessary renewal and replacement of academic buildings and infrastructure. For the fiscal years 2004 and 2005, only 25 percent of the formula funding for renewal and replacement was appropriated, and during 2004, the amount was further reduced to 12.5 percent for the year. The appropriation in 2005-2007 increased to 43 percent of its full funding level. As a result of the previous under-funding, through the end of fiscal year 2007, Ball State University had in excess of $30.0 million in deferred funding for academic buildings and infrastructure. Because of the critical nature of this problem, $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 the graph indicates, the 1950's and 1960's saw a substantial increase in gross square footage of non-state supported buildings, including dining and residence halls, parking facilities, the student center, Emens Auditorium, athletic facilities, and conference venues. At the present time, these non-state supported buildings have a current replacement value of approximately $607.9 million. In just the period between now and 2014, over $219.1 million, in current dollars, is planned for investment in renewal projects on these facilities. Currently, $112.5 million has been allocated from auxiliary operations revenues and student fees for the stewardship and renewal of these facilities.



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, 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.

Johnson Complex

The largest portion of the $112.5 million is $73.7 million in the Residence Hall and Dining Hall Repair and Replacement account. The current replacement value for these facilities is $436.6 million. Over the next seven years, the University plans to use more than $170.7 million of these funds, in current dollars, for scheduled major projects as well as ongoing capital repair and replacement projects. For example, the plan includes construction of a new North Residence Hall for approximately 600 students, as well as major renovations to DeHority Complex and Johnson Complex.

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 $45.1 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 $5.3 million, funded primarily from parking revenues, including permits, daily fees, and citations. The University plans to spend more than $5.7 million, in current dollars, over the next seven years and over $8.3 million in the next ten years for major and ongoing renewal of these facilities.

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 $126.2 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, $33.4 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 $42.6 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

Emens Auditorium

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. As well, the final parcels necessary to construct the new North Residence Hall will be 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 essentially no 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 $15.4 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 $6.4 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, $5.2 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 three 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 next three years to coincide with the goals and mission of the University's Strategic Plan.

The University has allocated $12.3 million for several capital projects that are either in progress or recently authorized, including furnishings and equipment for both the new Letterman Communication and Media Building, the Central Campus Academic Project, and replacement and upgrade of the campus telephone system.

Insurance and Other Exposures

The University's student fee revenue bonds are secured by pledges and first liens on student fees. While the Indiana General Assembly has appropriated amounts each year equal to the required payment on these bonds in the form of a Fee Replacement Appropriation, there is no guarantee that this appropriation will be renewed in any subsequent year, as the current General Assembly cannot legally bind future General Assemblies. In accordance with state statutes and bond indenture agreements, $11.1 million has been allocated from student fees for principal and interest payments on student fee revenue bonds. This amount ensures that the University can meet its immediate obligations to bondholders.

Because of its scale of operations, Ball State University is able to reduce operating costs by self-insuring, where possible, rather than purchasing higher cost insurance coverage from an outside carrier. This means, however, that the University must provide reserves similar to the reserves that are required of commercial insurers. Self-insurance reserves total $16.5 million, of which $13.2 million pertains to the self-insured health care plan for employees, retirees, and their families. Of the $13.2 million, $5.2 million represents claims that were incurred but not yet paid as of year end, while $5.7 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 $2.3 million in health care reserves represents 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 $3.3 million in reserves, $1.9 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.

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 will 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, $4.3 million has been allocated.

Other Allocations

In addition to $2.2 million in restricted student loan funds, the University has designated another $0.4 million for the benefit of students with demonstrated need. Included are the funds for emergency loans for students whose financial aid packages have not been finalized. Similarly, while the University has $0.9 million in non-expendable endowment restricted by the donors for student scholarships, the University has designated another $1.8 million in unrestricted private donations to be used as an endowment for student scholarship purposes.

The unrestricted net assets also contain $28.1 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 in fiscal year 2007, though relatively stable, were still higher than the coupon rates on some of the longer-term investments purchased in prior years, the market adjustment was negative, and the largest portion, $2.6 million, was applied to the balances in unrestricted net assets.

Change in Net Assets

The following is a summary of the revenues and expenses resulting in the changes in net assets for the year ended June 30, 2007. Note that, for purposes of this statement, state appropriations are considered non-operating revenues.

Change in Net Assets
Year Ended June 30, 2007 and 2006

	2007		2006	
Operating Revenues	$	224,108,521	$	208,577,061
Operating Expenses		351,331,271		334,112,787
Net Operating Income/(Loss)	$	(127,222,750)	$	(125,535,726)
Net Non-Operating Revenues		155,893,890		146,469,311
Other Revenue – Capital Appropriations and Gifts		14,759,674		3,486,011
Increase in Net Assets	$	43,430,814	$	24,419,596
Net Assets - Beginning of Year		497,497,308		515,918,845
Restatement - Change in Accounting Policy		-		(42,097,896)
Restatement - Compensated Absences		-		(995,205)
Restatement - Additional Revenue Recognition		-		251,968
Net Assets - End of Year	$	540,928,122	$	497,497,308

Operating Revenues

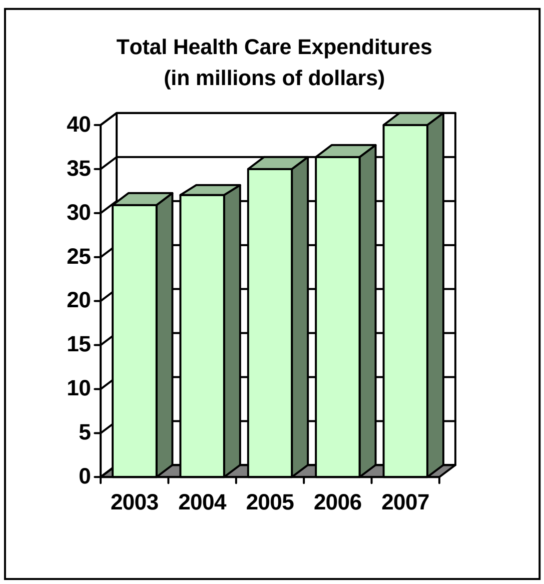
Operating revenues increase net assets and include all transactions that result in sales and/or receipts from goods and services such as tuition and fees, housing, dining and athletics. In addition, federal, state and private grants are considered operating if they are not for capital purposes.

Student tuition and fees net revenue increased $5.6 million as a result of rate increases, and auxiliary enterprises revenue, including housing and dining net revenues, increased $2.0 million. Scholarship allowances, generated by federal and state financial aid funds as well as internally generated discounts, have reduced tuition and fees revenue by $43.3 million and room and board revenue by $2.7 million.

Grants and Contracts revenue increased by $5.0 million, most of which was attributable to utilization of the new $20.0 million Digital Exchange grant from the Lilly Endowment, which was received late in the previous fiscal year.

Operating Expenses

Operating expenses reduce net assets and comprise all the costs necessary to perform and conduct the programs and primary purposes of the University. Included in this total are student aid payments of $6.0 million, which are in addition to $43.3 million and $2.7 million in scholarships and fee remissions netted against tuition and fees revenue and room and board revenues, respectively.



For 2007, other operating expenses are $11.9 million higher, due primarily to increases in repairs and maintenance and other supplies expense as a result of the number of expenditures related to capital projects which did not meet the criteria to be capitalized under our capitalization policy. Salaries and benefits are $5.4 million higher due primarily to salary increases offset by lower health care expenditures. This reduction in health care expenditures is somewhat misleading, because the prior year amount includes a $6.4 million contribution to the VEBA Trust Fund established to fund future retiree health care expenditures, while the current year includes the planned $1.4 million contribution. In addition, as previously mentioned, late in the current fiscal year the University received a large amount of Medicare Retiree Drug Subsidy as well as unplanned rebates from the

University's pharmacy benefits manager. When the effect of these items are removed, health care expenditures actually increased by $3.6 million.

Approximately 96 percent of the University's employees electing the health care benefit were members of the Preferred Provider Organization (PPO) Plan for fiscal year 2007. Despite the sizable discounts available from in-network providers, health care costs nevertheless increased. Due to higher costs for physicians, hospitals and prescription drugs, and increased usage by the University's employees and retirees, further increases are projected in 2008. This is due to the aging demographic profile of this population, technological advances in diagnostic techniques, expensive new prescription drugs and advances in surgical procedures. These increases are occurring in spite of improved wellness benefits and the active efforts of the University to inform employees and retirees of ways to better manage their chronic medical conditions. According to published results of surveys of employers, insurers, actuaries and third party administrators, conducted by reputable human resources consulting firms, costs are expected to continue to increase for the foreseeable future. To combat this trend, the University began offering two less expensive health care plans to employees in 2007, and is implementing the Health Enhancement Program for employees, retirees and spouses.

Non-Operating Revenues and Expenses

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

For 2007, state appropriations were virtually unchanged from the previous year. The University received notification that the $6.7 million of appropriation withheld in prior years would be received in equal installments in 2008 and 2009. Therefore, one-half of the amount has been reclassified as a current receivable while the other half remains as a long-term receivable for the future.

Other Revenues

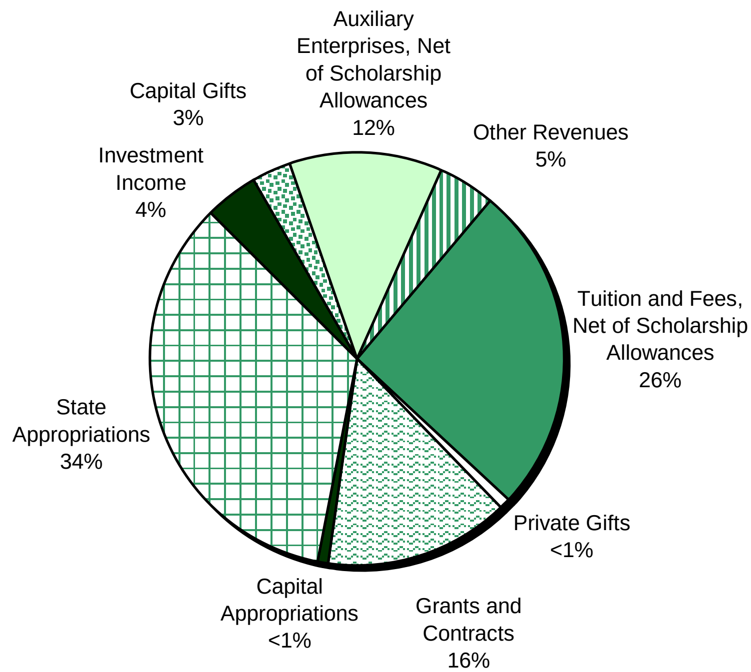
Renewal and Replacement Appropriations
(millions of dollars)

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

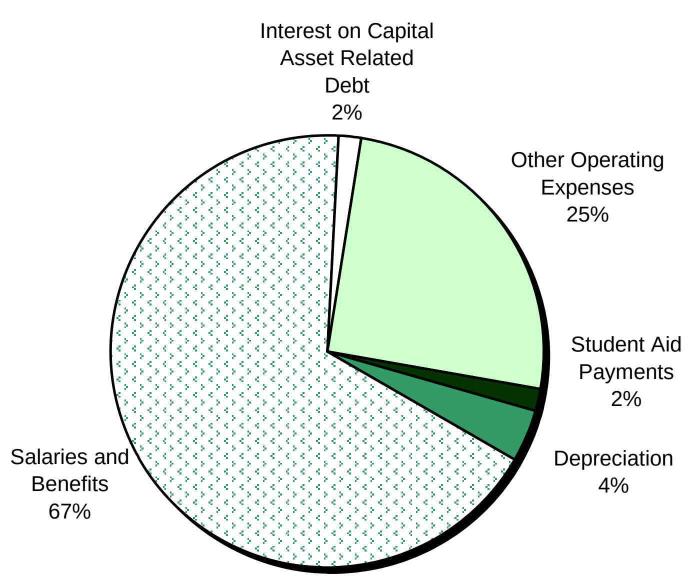
Other revenues increase net assets and consist of capital appropriations, gifts and grants, as well as items that are typically non-recurring, extraordinary, or unusual to the University.

Capital appropriations financed by the State of Indiana for renewal and replacement were $2.6 million, which was identical to the prior year. The $2.6 million represents approximately 43 percent of the formula used by the State of Indiana for renewal and replacement funding. In addition, the University received $12.1 million in capital gifts through the Ball State University Foundation to fund the expansion and renovation of Scheumann Football Stadium.

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, 2007

Cash and Equivalents Provided By/(Used In):		
Operating Activities	$	(116,417,902)
Non-Capital Financing Activities		140,258,217
Capital and Related Financing Activities		(54,092,536)
Investing Activities		(24,756,379)
Net Increase in Cash and Equivalents	$	(55,008,600)
Cash and Equivalents – Beginning of Year		78,238,024
Cash and Equivalents – End of Year	$	23,229,424

The major components of cash flows provided from operating activities are tuition and fees, grants and contracts and auxiliary enterprise activities (housing and dining fees). More cash was provided by tuition and fees and auxiliary enterprise activities than in the prior year due to rate increases. Receipts for grants and contracts were slightly lower in fiscal 2007, due to the new $20.0 million Lilly Endowment Grant received in fiscal 2006. The major components of cash flows used in operating activities are payments for employees (including benefits) and payments to suppliers. More cash was used for these activities than in the prior year due to pay increases and increases in cash disbursed for health care costs.

Cash flows provided from non-capital financing activities primarily reflect state appropriations received of $142.7 million.

Cash flows from capital financing activities reflect a decrease in cash for the year. This was due to payments for capital assets funded from amounts received in prior years.

Cash flows from investing activities, most of which consists of reinvesting the proceeds from investments as they mature, resulted in a net decrease in cash due to increased investment purchases for terms exceeding 90 days.

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 expansion of existing 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 at 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.

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, 2007 and 2006

		2007		2006 Restated
Assets:				
Current Assets:				
Cash and Cash Equivalents	$	23,229,424	$	78,238,024
Short Term Investments		14,692,883		14,428,963
Accrued Interest Receivable – Investments		4,363,588		3,363,297
Accounts Receivable, Net, and Unbilled Costs		34,292,462		21,393,579
Inventories		1,471,005		1,035,899
Deposit with Bond Trustee		9,033,160		9,856,206
Notes Receivable, Net		1,744,691		1,123,233
Prepaid Expenses		815,244		820,389
Total Current Assets	$	89,642,457	$	130,259,590
Noncurrent Assets:				
Endowment Investments	$	2,655,022	$	2,450,288
State Appropriation Receivable		3,339,406		6,678,812
Notes Receivable, Net		8,203,101		8,825,030
Other Long Term Investments		210,160,855		170,899,750
Capital Assets, Net		416,848,783		375,196,175
Total Noncurrent Assets	$	641,207,167	$	564,050,055
Total Assets	$	730,849,624	$	694,309,645
Liabilities:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$	27,491,520	$	25,500,689
Deposits		8,225,682		5,177,059
Deferred Revenue		7,384,896		7,194,133
Long Term Liabilities – Current Portion		7,548,003		6,854,881
Total Current Liabilities	$	50,650,101	$	44,726,762
Noncurrent Liabilities:				
Liability for Compensated Absences	$	7,878,457	$	7,767,203
Advances on Long Term Grants		7,076,695		12,247,158
Perkins Loan Program - Federal Capital Contribution		9,085,813		8,935,709
Long Term Liabilities, net		115,230,436		123,135,505
Total Noncurrent Liabilities	$	139,271,401	$	152,085,575
Total Liabilities	$	189,921,502	$	196,812,337
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$	297,508,636	$	249,001,147
Restricted for:				
Nonexpendable Scholarships		883,021		1,032,643
Expendable:				
Debt Service		2,637,682		3,210,855
Loans		2,159,328		2,060,428
Construction		12,084,971		42,640,436
External Grants		4,915,363		3,792,117
Unrestricted (See Note B)		220,739,121		195,759,682
Total Net Assets	$	540,928,122	$	497,497,308
Total Liabilities and Net Assets	$	730,849,624	$	694,309,645

Ball State University
Foundation

Statement of Financial Position
June 30, 2007 and 2006

	2007	2006
Assets:		
Cash	$ 227,972	$ 230,849
Interest and Dividends Receivable	157,045	163,369
Contributions Receivable (Net of Allowances:		
2006 - $635,043; 2005 - $732,879)	19,116,806	11,764,863
Property Held for Sale	2,132,417	2,127,417
Beneficial Interest in Remainder Trusts	3,896,360	3,130,579
Note Receivable	1,174,712	1,980,438
Investments in Marketable Securities	203,165,498	172,080,772
Investments Held in Split-Interest Agreements	3,593,698	3,313,316
Bond Issue Costs and Other Assets	108,411	101,696
Cash Surrender Value of Life Insurance	872,941	850,730
Property and Equipment	2,215,835	1,350,936
Beneficial Interest in Perpetual Trusts	1,820,731	1,770,850
Total Assets	$ 238,482,426	$ 198,865,815
Liabilities:		
Accounts Payable	$ 9,373,748	$ 1,560,286
Grants Payable	1,341,508	1,341,508
Accrued Expenses	317,590	317,296
Annuity Obligations	1,697,570	1,173,760
Trust Obligations	1,101,290	1,059,149
Bonds Payable	10,000,000	10,000,000
Total Liabilities	$ 23,831,706	$ 15,451,999
Net Assets:		
Unrestricted	$ 48,225,761	$ 33,365,397
Temporarily Restricted	48,595,356	52,794,315
Permanently Restricted	117,799,603	97,254,104
Total Net Assets	$ 214,620,720	$ 183,413,816
Total Liabilities and Net Assets	$ 238,452,426	$ 198,865,815

See Note A in Notes to Financial Statements

Ball State University

Statement of Revenues, Expenses and Changes in Net Assets

June 30, 2007 and 2006

		2007		2006 Restated and Reclassified
Operating Revenues:				
Student Tuition and Fees	$	146,877,924	$	137,012,534
Scholarship Allowances		(43,258,798)		(38,944,407)
Net Student Tuition and Fees	$	103,619,126	$	98,068,127
Federal Grants and Contracts		22,794,086		21,130,073
State Grants and Contracts (See Note C)		21,025,336		19,988,311
Other Governmental Grants and Contracts		197,285		144,444
Non-Governmental Grants and Contracts		13,761,467		11,528,046
Sales and Services of Educational Departments		12,603,951		10,662,254
Auxiliary Enterprises: (See Note C)				
Residential Life (Net of Scholarships and Allowances: 2007 - $2,672,084; 2005 - $2,507,040)		38,908,958		37,283,113
Other		8,807,124		8,400,199
Other Operating Revenues (See Note B)		2,391,188		1,372,494
Total Operating Revenues	$	224,108,521	$	208,577,061
Operating Expenses:				
Personnel Services	$	181,170,578	$	173,126,181
Benefits (See Note B)		59,719,361		62,405,608
Utilities (See Note C)		9,002,330		8,916,636
Repairs and Maintenance (See Note C)		12,623,133		9,397,493
Other Supplies and Expenses (See Note C)		68,742,163		60,360,967
Student Aid		5,994,656		6,130,920
Depreciation		14,079,050		13,774,982
Total Operating Expenses	$	351,331,271	$	334,112,787
Operating Income/(Loss)	$	(127,222,750)	$	(125,535,726)
Non-Operating Revenues/(Expenses):				
State Appropriations	$	138,634,176	$	138,600,493
Investment Income		15,998,849		6,341,401
Interest on Capital Asset Related Debt		(5,567,224)		(3,951,353)
Private Gifts (See Note C)		3,653,610		2,667,519
Other Non-Operating Income (See Note C)		3,174,479		2,811,251
Net Non-Operating Revenues/(Expenses)	$	155,893,890	$	146,469,311
Income Before Other Revenues, Expenses, Gains or Losses	$	28,671,140	$	20,933,585
Capital Appropriation		2,621,019		2,621,019
Capital Gifts (See Note C)		12,138,655		864,992
Increase in Net Assets	$	43,430,814	$	24,419,596
Net Assets – Beginning of Year		497,497,308		515,918,845
Restatement - Compensated Absences (See Note B)		-		(995,205)
Restatement - Additional Revenue Recognition (See Note B)		-		251,968
Restatement - Change in Accounting Policy (See Note B)		-		(42,097,896)
Net Assets - Beginning of Year as Restated	$	497,497,308	$	473,077,712
Net Assets – End of Year	$	540,928,122	$	497,497,308

Ball State University Foundation

Statement of Activities

Years Ended June 30, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:								
Contributions	$ 1,105,000	$ 4,188,140	$ 15,270,397	$ 20,563,537	$ 849,763	$ 31,875,746	$ 4,350,011	$ 37,075,520
Promotional Activities and Other Revenue	55,410	-	-	55,410	41,658	-	-	41,658
Investment Income	21,358,433	5,895,989	5,726,355	32,980,777	14,670,716	4,211,179	3,039,062	21,920,957
Change in Value of Split-Interest Agreements	-	167,378	54,997	222,375	153,845	(12,725)	465,817	606,937
Operating Support Fees	835,044	(192,418)	(642,626)	-	702,936	(186,129)	(516,807)	-
	$ 23,353,887	$ 10,059,089	$ 20,409,123	$ 53,822,099	$ 16,418,918	$ 35,888,071	$ 7,338,083	$ 59,645,072
Net Assets Released from Restrictions	14,121,672	(14,258,048)	136,376	-	27,883,391	(28,672,470)	789,079	-
Total Revenues, Gains and Other Support	$ 37,475,559	$ (4,198,959)	$ 20,545,499	$ 53,822,099	$ 44,302,309	$ 7,215,601	$ 8,127,162	$ 59,645,072
Expenses:								
University Capital Projects	$ -	$ -	$ -	$ -	$ 1,200,000	$ -	$ -	$ 1,200,000
University Programs	18,223,419	-	-	18,223,419	29,167,074	-	-	29,167,074
Management and General	2,559,767	-	-	2,559,767	2,015,593	-	-	2,015,593
Fund Raising	1,832,009	-	-	1,832,009	2,139,729	-	-	2,139,729
Total Expenses	$ 22,615,195	$ -	$ -	$ 22,615,195	$ 34,522,396	$ -	$ -	$ 34,522,396
Change in Net Assets	$ 14,860,364	$ (4,198,959)	$ 20,545,499	$ 31,206,904	$ 9,779,913	$ 7,215,601	$ 8,127,162	$ 25,122,676
Net Assets, Beginning of Year	33,365,397	52,794,315	97,254,104	183,413,816	23,585,484	45,578,714	89,126,942	158,291,140
Net Assets, End 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

See Note A in Notes to Financial Statements

Ball State University

Statement of Cash Flows
Year Ended June 30, 2007

Source /(Uses) of Cash:		
Operating Activities:		
Tuition and Fees	$	103,719,562
Grants and Contracts		52,663,409
Payments to Suppliers		(62,184,380)
Payment for Maintenance and Repair		(12,623,133)
Payments for Utilities		(9,002,330)
Payments for Personnel Services		(180,942,303)
Payments for Benefits		(63,668,868)
Payments for Scholarships and Fellowships		(4,433,318)
Auxiliary Enterprise Charges:		
Room and Board		38,553,058
Other		7,952,130
Sales and Services of Educational Activities		12,017,315
Other Receipts/Disbursements/Advances		1,530,956
Net Cash Provided/(Used) by Operating Activities	$	(116,417,902)
Non-Capital Financing Activities:		
State Appropriations	$	142,711,238
William D. Ford Direct Lending Receipts		53,381,980
William D. Ford Direct Lending Disbursements		(53,381,980)
PLUS Loans Receipts		29,473,548
PLUS Loans Disbursements		(29,473,548)
Private Gifts		(8,086,794)
Foundation Receipts		3,788,384
Foundation Disbursements		(3,788,384)
Other Non Operating Revenue		3,174,479
Other Receipts		2,459,294
Net Cash Provided/(Used) by Non-Capital Financing Activities	$	140,258,217
Capital Financing Activities:		
Proceeds from Capital Debt	$	-
Capital Appropriations		2,621,019
Capital Gifts		12,138,655
Unamortized Bond Premium		(185,837)
Purchases of Capital Assets		(57,022,917)
Principal Paid on Capital Debt		(6,854,881)
Interest Paid on Capital Debt		(5,611,621)
Deposits with Trustee		823,046
Net Cash Provided/(Used) by Capital Financing Activities	$	(54,092,536)
Investing Activity:		
Proceeds from Sales and Maturities of Investments	$	58,681,745
Interest on Investments		13,052,406
Purchase of Investments		(96,490,530)
Net Cash Provided/(Used) by Investing Activities	$	(24,756,379)
Net Increase/(Decrease) in Cash	$	(55,008,600)
Cash – Beginning of the Year	$	78,238,024
Cash – End of the Year		23,229,424
Net Increase/(Decrease) in Cash	$	(55,008,600)

Ball State University

Statement of Cash Flows
Year Ended June 30, 2007

Reconciliation of Net Operating Revenues/(Expenses) to Net Cash Provided/(Used) by Operating Activities:		
Operating Income/(Loss)	$	(127,222,750)
Adjustments to Reconcile Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Depreciation Expense		14,079,050
Equipment Retired		1,291,259
Changes in Assets and Liabilities:		
Operating Receivables – Net		(5,210,362)
Inventories		(435,106)
Other Assets		5,144
Accounts Payable		1,863,998
Deferred Revenue		190,763
Deposits Held for Others		739,433
Compensated Absences		111,254
Change in Advance on Long Term Grants		(5,170,462)
Change in Long Term State Appropriations Receivable		3,339,406
Loans to Students		471
Net Cash Provided/(Used) by Operating Activities	$	(116,417,902)

Ball State University Foundation

Statement of Cash Flows

Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities:		
Change in Net Assets	$ 31,206,904	$ 25,122,676
Items not Requiring/(Providing) Cash:		
Depreciation and Amortization	47,472	40,842
Bad Debt Expense	242,117	596,940
Net Unrealized (Gain)/Loss on Investments	(23,105,884)	(6,691,413)
Net (Gain)/Loss on Sales of Investments	(6,755,539)	(12,499,078)
Contributions of Marketable Equity Securities	(1,243,097)	(2,240,830)
Contributions Restricted for Long-Term Investment	(15,221,495)	(4,350,011)
Net Change in Value of Split-Interest Agreements	285,569	454,364
Changes In:		
Contributions Receivable, Including Amortization of Discount on Pledges Receivable	(7,594,060)	(1,225,571)
Interest and Dividends Receivable and Other Assets	(391)	103,698
Accounts Payable and Accrued Expenses	7,813,756	1,005,623
Net Cash Provided by Operating Activities	$ (14,324,648)	$ 317,240
Investing Activities:		
Purchase of Property and Equipment	$ (912,371)	$ (746,784)
Purchase of Property Held for Sale	(5,000)	(785,909)
Purchase of Investments	(92,923,666)	(147,760,507)
Sales and Maturities of Investments	92,127,798	143,938,286
Note Receivable	805,726	766,821
Net Increase in Cash Surrender Value of Life Insurance	7,789	(62,571)
Net Cash Used in Investing Activities	$ (899,724)	$ (4,650,664)
Financing Activities:		
Proceeds from Contributions Restricted for Investment in Permanent Endowment	$ 15,221,495	$ 4,350,011
Net Increase/(Decrease) in Cash	$ (2,877)	$ 16,587
Cash – Beginning of the Year	230,849	214,262
Cash – End of the Year	$ 227,972	$ 230,849
Interest Paid	$ 530,790	$ 423,469

See Note A in Notes to Financial Statements

Ball State University
Notes to Financial Statements
June 30, 2007

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 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, 2007, and June 30, 2006, were $3,490,415 and $3,253,192 respectively for accounts receivable. For notes receivable, the reserves were $1,593,147 and $1,546,147 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 art collection, housed primarily in the Ball State University Museum of Art, is not included, due to the difficulty in determining an accurate value, plus the restrictions in place regarding sales of artwork and use of the funds resulting from such sales, as well as disposition of the artwork in the unlikely event that the museum would cease to exist.

Component Unit

The Ball State University Foundation (foundation) is a legally separate, tax-exempt Indiana nonprofit corporation that is an Internal Revenue Code Section 170(b) (1) (A) organization organized and operated for the benefit of Ball State University. Under the reporting standards of the Governmental Accounting Standards Board (GASB), the foundation is defined to be a component unit of the University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The foundation by-laws allow for thirty-one voting directors, seven of whom serve by position. The seven directors who serve by position include the President of the University Board of Trustees, the University President, the Vice-Presidents of Business Affairs and Advancement and two other members of the University Board of Trustees. Although the University does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the University, the foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Transactions with the foundation primarily involve the funding of expenditures for which university funds are not available. These include both unrestricted funds and those restricted by donors. Expenditures include scholarships, funding of distinguished professorships, capital expenditures and operational support. During the year ended June 30, 2007, the foundation recorded expenses of $19,223,863 for both restricted and unrestricted purposes of the University. Amounts paid to the University were $8,353,677 for University capital projects, $9,869,743 for University program expenses and $1,000,443 for fund raising. The total of $19,223,863 is reflected as revenue and expense in University reporting and an additional $3,325,999 is reflected as expense solely in the Foundation's reporting. Complete financial statements for the foundation can be requested from the foundation office at 2800 W. Bethel Ave., Muncie, IN 47306.

The foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundation's financial information in the University's financial reporting entity for these differences.

Note B – Restatement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

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

As explained in Note D, the University records a liability for all unused vacation and sick leave balances that are payable upon employee termination in accordance with University policy. The estimated payroll taxes and pension contributions related to that liability have not been previously recorded. The fiscal 2006 beginning fund balance has been reduced by $995,205 and the Liability for Compensated Absences has been increased to reflect the effect of that recording. The June 30, 2006 Liability for Compensated Absences balance has been further increased by $68,505 from the balance previously reported to reflect the change in the liability that occurred during fiscal 2006. The benefits expense originally reported in the fiscal 2006 SRECNA has been increased by the same amount.

The University has funds on deposit resulting from checks which have not been cashed by the payees and unclaimed credit balances in the accounts receivable system. Under state statutes these funds revert to the University after approximately seven years. The University had not recognized the revenue from these deposits to the extent that it could so the fiscal 2006 beginning fund balance has been increased by $251,968 and the Deposits liability has been reduced to reflect the effect of that recording. The June 30, 2006 Deposits liability amount has been further reduced by $27,369 from the balance previously reported to reflect the recognition of revenue that occurred in fiscal 2006. The Other Operating Income originally reported in the fiscal 2006 SRECNA has been increased by the same amount

Note C – Reclassifications

Certain reclassifications have been made to the prior year statements for comparative purposes. These reclassifications do not constitute a restatement of prior periods, since they do not affect the increase in net assets as originally reported. Changes to revenues and expenses are detailed below.

The net effect of the reclassifications in the Statement of Revenues, Expenses and Changes in Net Assets is as follows:

	Prior to Reclassification	Reclassification Amount	After Reclassification	
Operating Revenues:				
State Grants	$ 26,028,187	$ (6,039,876)	$ 19,988,311	-01
Auxiliary Enterprises:				
Residential Life	41,071,661	(3,788,548)	37,283,113	-02
Other	9,777,893	(1,377,694)	8,400,199	-02
Other Operating Revenues	1,301,310	43,815	1,345,125	-03
Operating Expenses:				
Utilities	9,001,371	(84,735)	8,916,636	-04
Repairs and Maintenance	6,244,226	3,153,267	9,397,493	-05
Other Supplies and Expenses	67,584,196	(7,223,229)	60,360,967	-06
Non-Operating Revenues:				
State Appropriations	134,404,138	4,196,355	138,600,493	-07
Private Gifts	3,532,511	(864,992)	2,667,519	-08
Other Non-Operating Income	-	2,811,251	2,811,251	-09
Capital Gifts	-	864,992	864,992	-10

Notes:

01 - Indiana Academy Support - moved to Non-Operating Revenues
02 - Eliminate Internal Revenue Transactions
03 - Correct for credit against Other Supplies and Expenses. This amount does not include a $27,369 increase as a result of the restatement explained in Note B.
04 - Moved to Repairs and Maintenance
05 - Moved from Utilities and Other Supplies and Expenses
06 - Eliminate Internal Transactions and moved to Repairs and Maintenance amounts
07 - Indiana Academy State Appropriation from State Grants and Contracts
08 - Moved to Capital Gifts
09 - Tax support payments for Indiana Academy and Burris Laboratory School
10 - From Private Gifts-Scheumann Football Stadium

In the Statement of Net Assets, $169,287 has been reclassified from Long Term Liabilities, net to Accounts Payable and Accrued Liabilities. This represents corrections in classification of a portion of unamortized premiums on bonds that was recognized and paid in fiscal 2007.

Note D – Compensated Absences

The University records a liability for all unused vacation and sick leave balances that are payable upon employee termination in accordance with University policy. The maximum number of vacation days any employee can accumulate as of June 30 is 24, for which they would be paid upon termination. Employees can accumulate a maximum of 90 days of sick leave, two-thirds of which, or 60 days maximum, is payable upon retirement to qualifying employees. In order to qualify for this benefit, professional employees must have been hired prior to July 1, 1985 and be at least 50 years of age with at least 15 years of employment at Ball State University. Staff personnel assigned on a fiscal year basis are eligible to receive pay for two-thirds of their accumulated unused sick leave, up to a maximum of 480 hours for non-exempt staff personnel and 60 days for exempt staff personnel if they qualify for retirement status.

Note E – Capital Assets

	Book Value July 1, 2006	Additions	Deductions	Book Value June 30, 2007
Land	$ 11,312,274	$ 1,708,990	$ -	$ 13,021,264
Land Improvements	30,825,595	3,161,581	-	33,987,176
Infrastructure	14,397,837	-	-	14,397,837
Educational Buildings	281,472,344	853,221	685,000	281,640,565
Utility Buildings	15,139,101	-	-	15,139,101
Educational Equipment	42,954,859	4,805,567	6,222,209	41,538,217
Auxiliary Enterprise Buildings	161,240,440	15,752,967		176,993,407
Auxiliary Enterprise Equipment	11,529,168	1,711,384	630,424	12,610,128
Construction in Process	20,797,176	28,389,324	-	49,186,500
Other Property	1,391,275	639,883	-	2,031,158
Total	$ 591,060,069	$ 57,022,917	$ 7,537,633	$ 640,545,353
Less Accumulated Depreciation:				
Infrastructure	$ 3,230,418	$ 287,954	$ -	$ 3,518,372
Educational Buildings	96,081,399	5,632,810	21,300	101,692,909
Utility Buildings	6,752,864	302,781	-	7,055,645
Educational Equipment	32,448,710	3,752,014	5,615,708	30,585,016
Auxiliary Enterprise Buildings	67,416,464	3,553,035		70,969,499
Auxiliary Enterprise Equipment	9,898,435	544,262	609,366	9,833,331
Other Property	35,604	6,194	-	41,798
Total	$ 215,863,894	$ 14,079,050	$ 6,246,374	$ 223,696,570
Capital Assets, Net	$ 375,196,175	$ 42,943,867	$ 1,291,259	$ 416,848,783

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

Note F – Notes Payable

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

Note G – Bonds Payable

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

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

Student Fee Bonds, Series I, in the amount of $38,770,000, dated January 1, 1999, were issued on January 12, 1999. Proceeds from Series I were used to fund a portion of the construction of the Art and Journalism Building and to refund the outstanding Student Fee Bonds, Series G.

Student Fee Bonds, Series K, in the amount of $21,975,000, were dated and issued on January 3, 2002. Proceeds from Series K bonds were used to fund construction of the Music Instruction Building and to fund the cost of issuance and an amount of capitalized interest.

Student Fee Bonds, Series L, in the amount of $16,425,000, were dated and issued on July 21, 2004. Proceeds from Series L Bonds were used solely to refund all of the outstanding Student Fee Bonds remaining in Series J.

Student Fee Bonds, Series M, in the amount of $21,280,000, were dated and issued on December 15, 2004. Proceeds from Series M bonds were used to fund construction and reconfiguration of the David Letterman Communication Media Building and to fund the cost of issuance and a certain amount of capitalized interest.

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

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

The bond payable liability reported in the Statement of Net Assets includes premiums received on certain bond series. The premiums are being amortized over the life of each series and reduce the recorded interest expense. The current portion of Unamortized Premium on Bonds and Capitalized Interest on Parking Bonds is reflected in the Statement of Net Assets as Accounts Payable and Accrued Liabilities.

	Long Term Liability			
	June 30, 2007		June 30, 2006	
	Current Portion	Noncurrent Portion	Current Portion	Noncurrent Portion
Interim Loan Payable	$ 1,500,000	$ -	$ -	$ 1,500,000
Outstanding Bonds Payable	6,048,003	111,792,144	6,854,881	117,840,147
	$ 7,548,003	$ 111,792,144	$ 6,854,881	$ 119,340,147
Unamortized Premiums on Bonds	185,837	3,018,948	185,837	3,204,785
Capitalized Interest on Parking Bonds	231,997	419,344	225,119	590,573
Total	$ 7,965,837	$ 115,230,436	$ 7,265,837	$ 123,135,505

Long term bonds outstanding at June 30, 2007, were:

	Date of Issue	Original Issue	Retired 2006-2007	Outstanding June 30, 2007
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	104,881	275,147
Parking System Revenue Bonds of 2003:				
Current Interest, 2.00% to 5.00%	08/14/03	3,985,000	60,000	3,805,000
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	1,265,000	34,160,000
Student Fee Bonds, Series H, Current Interest, 2.75% to 6.25%	11/01/92	43,005,000	920,000	-
Student Fee Bonds, Series I, Current Interest, 3.25% to 5.00%	01/01/99	38,770,000	2,320,000	22,020,000
Student Fee Bonds, Series K:				
Current Interest, 4.00% to 4.60%	01/03/02	5,700,000	690,000	3,090,000
Term Bonds, 5.25% to 5.75%	01/03/02	16,275,000	-	16,275,000
Student Fee Bonds, Series L, Current Interest, 3.00% to 5.50%	07/21/04	16,425,000	785,000	15,135,000
Student Fee Bonds, Series M:				
Current Interest, 3.00% to 5.00%	12/15/04	19,355,000	710,000	18,645,000
Term Bonds, 3.80%	12/15/04	1,925,000	-	1,925,000
		$ 187,020,942	$ 6,854,881	$ 117,840,147

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
2008	$ 6,048,003	$ 5,623,560
2009	6,271,575	5,393,676
2010	6,520,569	5,147,845
2011	6,920,000	4,628,398
2012	7,225,000	4,322,050
2013-2017	33,680,000	16,534,417
2018-2022	30,450,000	8,769,406
2023-2026	20,725,000	1,743,135
Total	$ 117,840,147	$ 52,162,487

Note H – Defeased Bonds

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

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

At June 30, 2007, the unpaid principal for the defeased Building Facilities Fee Bonds was $22,500,000.

Note I – Investments

Investments held in the name of the University at June 30, 2007, consisted of the following:

	Market
U.S. Government Agency Securities	$ 217,699,365
Certificates of Deposit	22,243,870
Commercial Paper	17,080,551
Repurchase Agreement	468,940
Total	$ 257,492,726

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

> Obligations of the United States Government and of certain agencies of the United States Government.
>
> Certificates of deposit 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, 2007, the University's certificates of deposit were comprised of $7,370,000 with First Indiana Bank, Indianapolis, Indiana and $14,873,870 with First Merchants Bank, Muncie, Indiana.
>
> Commercial paper rated A1 (Standard & Poor's) or P1 (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 $9,422,852, as well as certificates of deposit and interest-bearing deposit accounts are insured by the Federal Deposit Insurance Corporation up to $100,000; amounts in excess of $100,000 are insured by the Indiana Public Depository Fund.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees' Retirement Fund, Harrison Building, 143 West Market Street, Indianapolis, IN 46204, or by calling (317) 233-4162.

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

Annual Required Contribution	$	2,222,898
Interest on Net Pension Obligation		(110,508)
Adjustment to Annual Required Contribution		125,932
Annual Pension Cost	$	2,238,322
Contributions Made		1,841,264
Increase/(Decrease) in Net Pension Obligation	$	397,058
Net Pension Obligation, July 1, 2005		(1,524,247)
Net Pension Obligation, June 30, 2006	$	(1,127,189)

Contribution Rates:	
University	5.50%
Plan Members (paid by BSU)	3.00%
Actuarial Valuation Date	6/30/2006
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar Open
Amortization Period	30 years
Asset Valuation Method	4 year Smoothed Market

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 adjustment	2.00%

	Three Year Trend Information		
Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 1,538,949	100.00%	$ (1,738,776)
2005	$ 1,804,664	88.11%	$ (1,524,247)
2006	$ 2,238,322	82.26%	$ (1,127,189)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Accrued Liability (AL)	Excess/ (Unfunded) AL	Funded Ratio
07/01/2004	$ 47,920,723	$ 45,080,246	$ 2,840,477	100.0%
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%

Date	Covered Payroll	Excess/ (Unfunded) AL as a Percent of Covered Payroll
07/01/2004	$ 41,363,222	6.9%
07/01/2005	$ 41,584,121	-2.5%
07/01/2006	$ 41,182,028	-2.8%

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, 2007, there were 436 employees participating in TRF with annual pay equal to $24,705,400. The University contributes at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be seven percent of covered payroll. The University’s contributions to the plan for the fiscal years ended June 30, 2007, 2006, and 2005, were $2,470,540, $2,637,012, and $2,692,398, respectively. The University contributed 100 percent of required contributions for each of the fiscal years.

Certain employees who participate in TRF are also eligible for supplementary retirement benefits under a noncontributory plan wherein the employee may designate one or more of the following companies to administer the funds:

ING Financial Advisers, LLC
Fidelity Investments Institutional Services Company, Inc.
Lincoln Financial Group
Teachers Insurance and Annuity Association - College Retirement Equities Fund

The same companies administer the funds in the other plan which is designed to provide benefits comparable to those under TRF and the supplementary plan.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Teachers’ Retirement Fund, 150 W. Market Street, Suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Alternate Pension

Faculty and professional personnel of the University have the option to participate in a defined contribution plan administered by the same companies as the TRF supplementary retirement contribution. Benefit provisions are established and/or amended by the Ball State University Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. The University contributes 12.27 percent of each participating employee’s base salary. For the fiscal year ended June 30, 2007, the University contributed $10,695,391 to this plan for 1,480 participating employees with annual payroll totaling $87,166,999.

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, 2007, $417,300 is recorded as a liability representing payments to be made in 2007 and 2008 to employees who retired under the program by June 30, 2007.

Post Retirement Benefits

In addition to providing pension benefits, the University, as authorized by the Ball State University Board of Trustees, provides certain health care and life insurance benefits for retired employees. Substantially all of the University's regular employees may become eligible for those benefits if they retire from the University after accruing the required years of service (15 years at age 50; ten years at age 60 for those hired before September 1, 1999). As of June 30, 2007, approximately 1,787 participants were eligible and were receiving one or both of these benefits.

Retiree Health Care

The University recognizes the cost of providing health care benefits by expensing its share of premiums assessed. Premium rates are determined by analyzing the costs of care, administration, changes in required insurance reserves and planned contributions toward the costs of future retiree health care. Premiums assessed during the year ended June 30, 2007, including the employees' and retirees' (25 percent) and University's (75 percent) share, totaled $42,390,588. These premiums are credited to the Health Care Auxiliary Fund; expenditures, transfers, and required reserve balances are recorded there as well. The University's share of retiree health care premiums totaled $7,313,768 for the year ended June 30, 2007.

The trust fund established for the sole purpose of funding future retiree health care had the following activity for the year ended June 30, 2007:

Market Value at July 1, 2006	$	125,657,322
Transfer from Health Care Auxiliary		1,401,000
Reinvested Net Earnings		8,860,181
Unrealized Gain (Loss)		12,909,319
Fund Balance at June 30, 2007	$	148,827,822

These funds cannot under any circumstances revert to the University. The actuarial evaluation completed in 2007, projects the accrued liability for future retiree health care for current retired and active employees to be approximately $146.9 million as of June 30, 2007. This amount assumes continuation of the Medicare Retiree Drug Subsidy for the foreseeable future, which is consistent with private institutions' reporting under Financial Accounting Standards Board (FASB) rules.

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

GASB, unlike FASB, does not permit future benefits from the Medicare Retiree Drug Subsidy to be considered when calculating the projected liability. Using GASB rules, the accrued liability as of June 30, 2007, is $171.9 million.

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

Retiree Life Insurance

Eligible personnel retiring after specified years of service are eligible to continue group life insurance at reduced amounts. The University has established a life insurance continuance fund with the insurance carrier in order to provide for the payment of retiree death claims. The actuarial evaluation completed in 2007, projects the accrued liability for all employees, active and retired, to be approximately $19.0 million as of June 30, 2007. Following is a summary of the life insurance continuance fund for the year ended June 30, 2007.

Fund Balance at July 1, 2006	$	22,722,157
Reinvested Net Earnings		1,528,009
Unrealized Gain (Loss)		2,375,913
Less Death Claims and Related Charges		1,123,328
Fund Balance at June 30, 2007	$	25,502,751

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, 2007. Claims activity for the year was as follows:

Unpaid health care claims at July 1, 2006	$	4,078,000
Claims incurred		39,888,363
Claims paid		38,785,363
Unpaid health care claims at June 30, 2007	$	5,181,000

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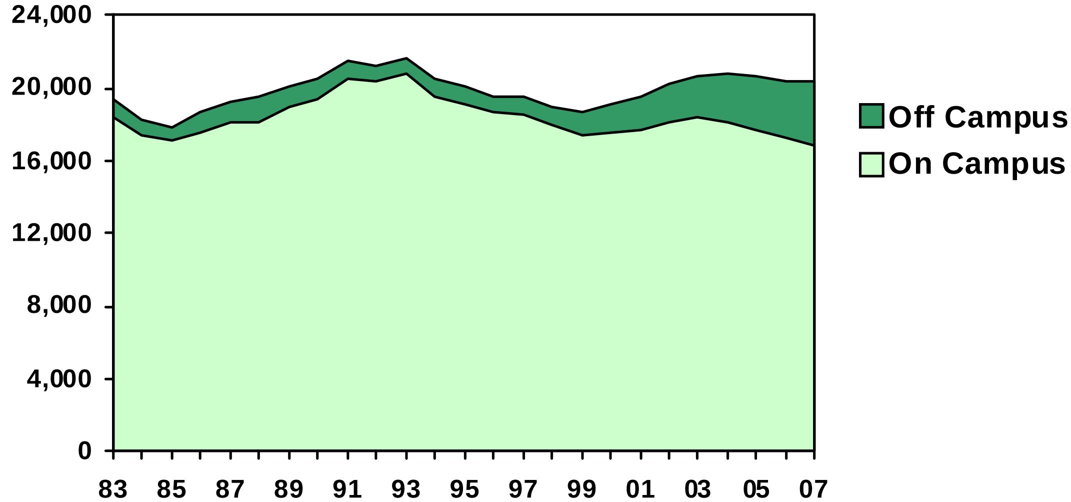
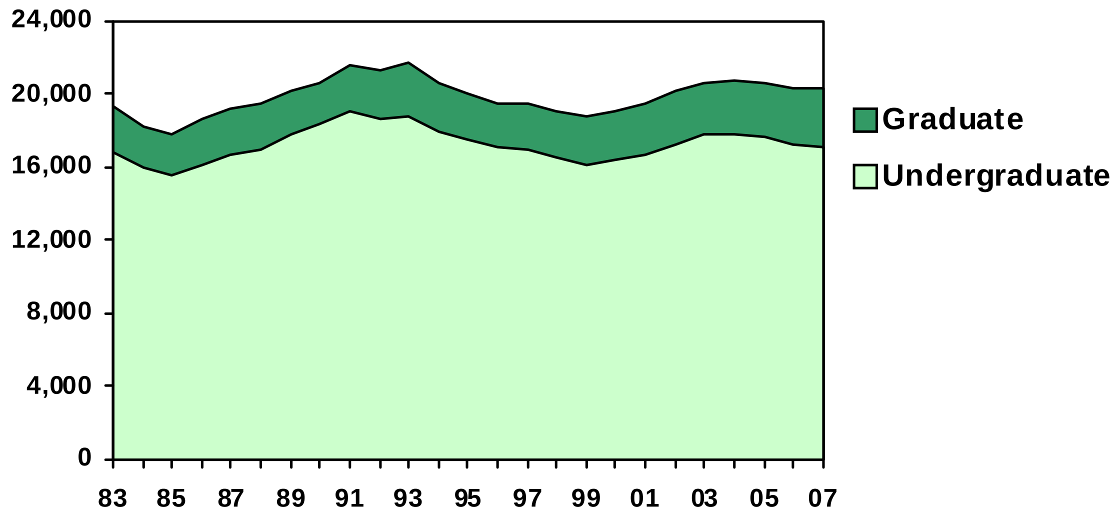
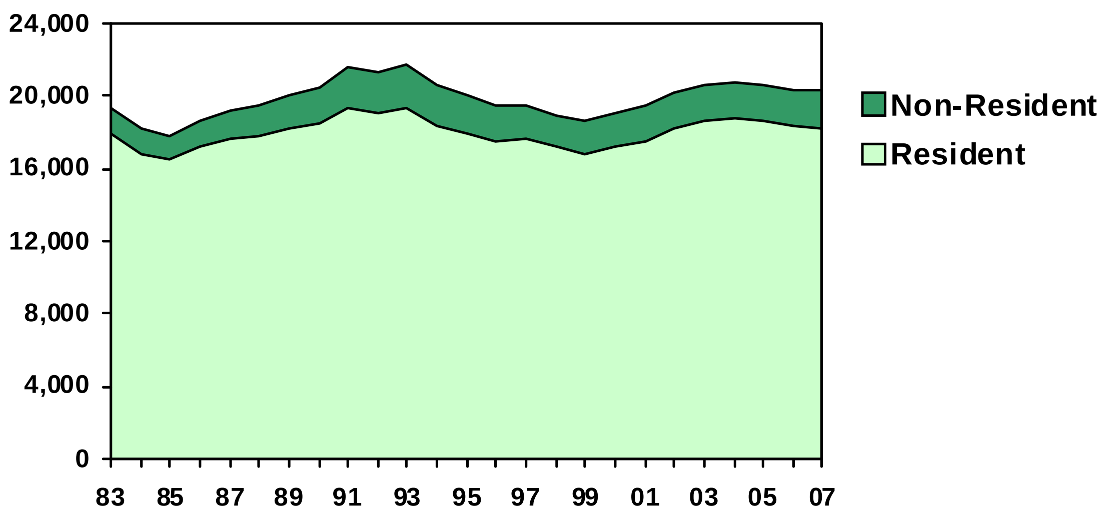
Supplemental Information

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.

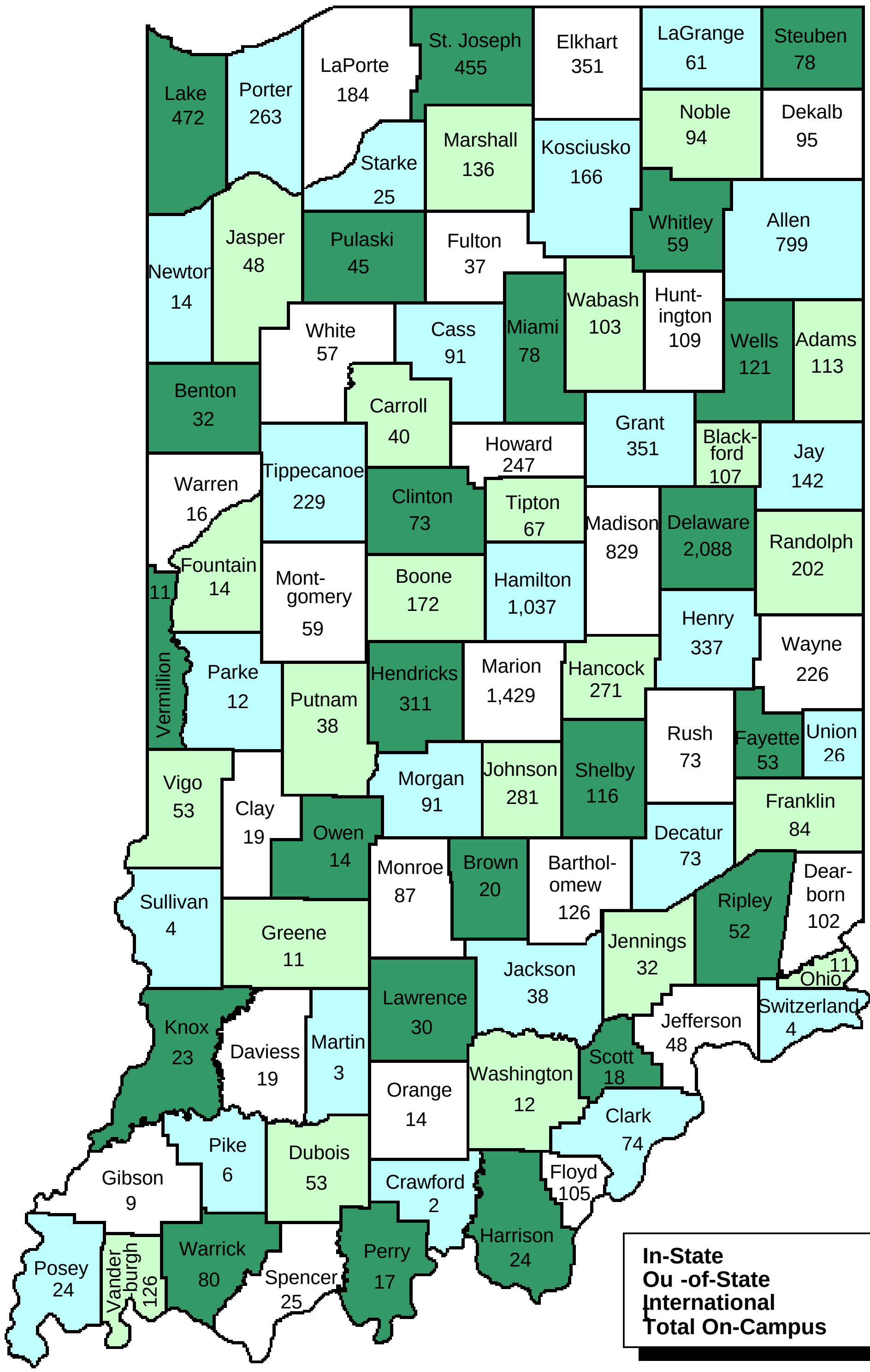
Student Enrollment
Fall Headcount 1983-2007





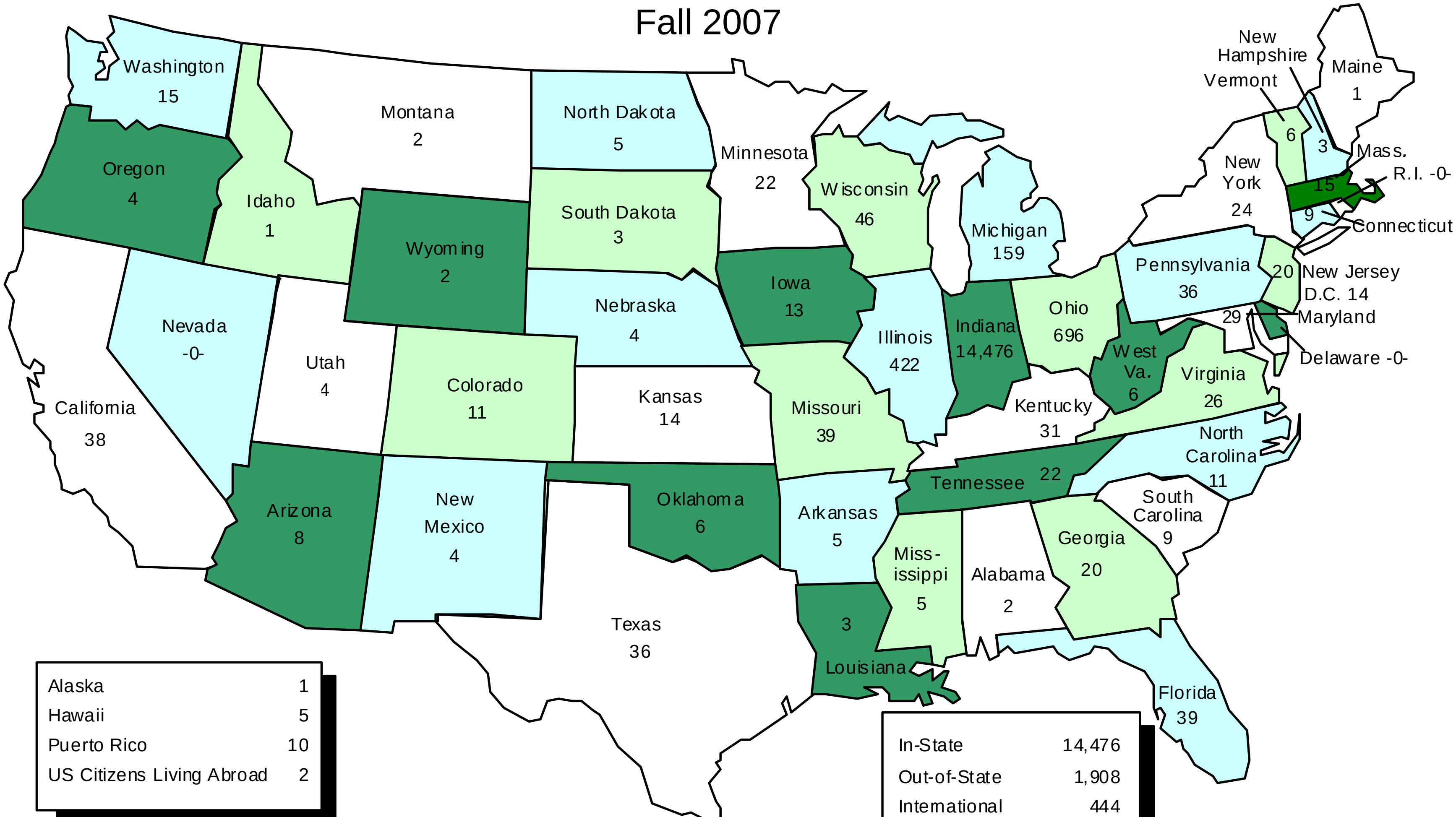


Campus Enrollment by County
Fall 2007



In-State	**14,476**
Ou -of-State	**1,908**
International	**444**
Total On-Campus	**16,828**

Campus Enrollment by State
Fall 2007



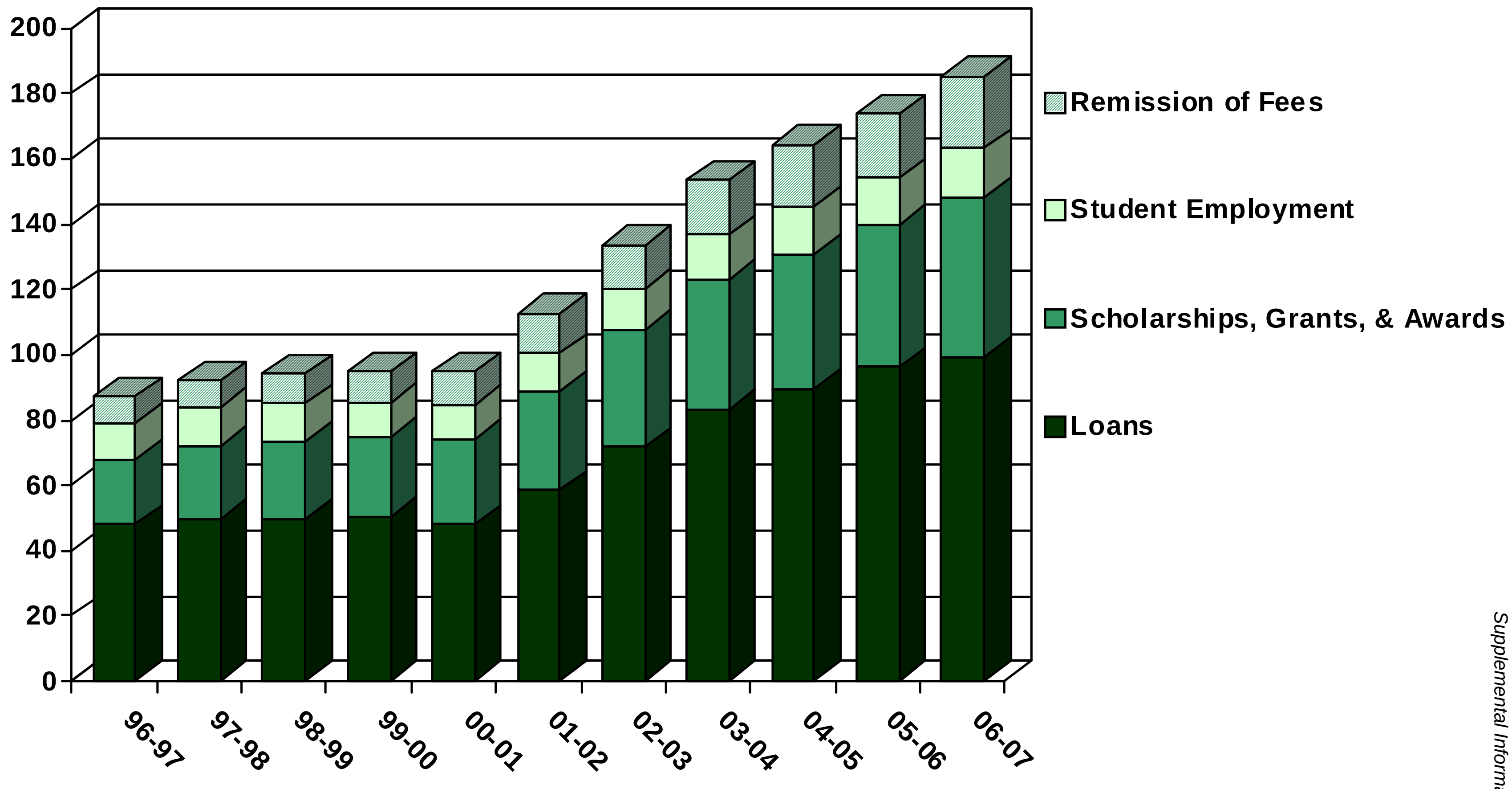
Alaska	1
Hawaii	5
Puerto Rico	10
US Citizens Living Abroad	2

In-State	14,476
Out-of-State	1,908
International	444
Total On Campus	16,828

Student Financial Assistance

1996-97 through 2006-07

(in millions of dollars)



Ball State University

Schedule of Annual Requirements for Principal and Interest

Revenue Bonds—Parking Facilities

Year Ended June 30, 2007

June 30	Principal	Interest	Total	Unliquidated Balance
2007				$ 6,590,147
2008	$ 163,003	$ 521,260	$ 684,263	6,427,144
2009	156,575	525,900	682,475	6,270,569
2010	150,569	529,956	680,525	6,120,000
2011	290,000	277,300	567,300	5,830,000
2012	305,000	262,425	567,425	5,525,000
2013	320,000	246,800	566,800	5,205,000
2014	340,000	232,000	572,000	4,865,000
2015	350,000	217,325	567,325	4,515,000
2016	365,000	201,238	566,238	4,150,000
2017	385,000	184,363	569,363	3,765,000
2018	400,000	166,700	566,700	3,365,000
2019	420,000	148,250	568,250	2,945,000
2020	435,000	129,013	564,013	2,510,000
2021	455,000	108,419	563,419	2,055,000
2022	480,000	86,213	566,213	1,575,000
2023	500,000	62,938	562,938	1,075,000
2024	525,000	38,594	563,594	550,000
2025	550,000	13,063	563,063	-
Total	$ 6,590,147	$ 3,951,757	$ 10,541,904	

Revenue Bonds—Housing and Dining

Year Ended June 30, 2007

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

Ball State University

Schedule of Annual Requirements for Principal and Interest

Revenue Bonds—Housing and Dining

Year Ended June 30, 2007

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	$ 34,160,000	$ 16,711,010	$ 50,871,010	

Student Fee Bonds

Year Ended June 30, 2007

June 30	Principal	Interest	Total	Unliquidated Balance
2007				$ 77,090,000
2008	$ 4,695,000	$ 3,613,664	$ 8,308,664	72,395,000
2009	4,875,000	3,427,740	8,302,740	67,520,000
2010	5,085,000	3,225,140	8,310,140	62,435,000
2011	5,295,000	3,006,702	8,301,702	57,140,000
2012	5,535,000	2,768,795	8,303,795	51,605,000
2013	5,790,000	2,503,561	8,293,561	45,815,000
2014	5,660,000	2,227,794	7,887,794	40,155,000
2015	5,165,000	1,962,889	7,127,889	34,990,000
2016	4,040,000	1,734,158	5,774,158	30,950,000
2017	3,365,000	1,542,114	4,907,114	27,585,000
2018	3,545,000	1,354,357	4,899,357	24,040,000
2019	3,745,000	1,156,238	4,901,238	20,295,000
2020	3,955,000	946,945	4,901,945	16,340,000
2021	4,180,000	725,795	4,905,795	12,160,000
2022	2,855,000	538,851	3,393,851	9,305,000
2023	3,005,000	388,401	3,393,401	6,300,000
2024	3,165,000	229,988	3,394,988	3,135,000
2025	1,530,000	110,475	1,640,475	1,605,000
2026	1,605,000	36,113	1,641,113	-
Total	$ 77,090,000	$ 31,499,720	$ 108,589,720	

Ball State University

Schedule of Annual Requirements for Principal and Interest

Total Revenue and Student Fee Bonds

Year Ended June 30, 2007

June 30	Principal	Interest	Total	Unliquidated Balance
2007				$ 117,840,147
2008	$ 6,048,003	$ 5,623,560	$ 11,671,563	111,792,144
2009	6,271,575	5,393,676	11,665,251	105,520,569
2010	6,520,569	5,147,845	11,668,414	99,000,000
2011	6,920,000	4,628,398	11,548,398	92,080,000
2012	7,225,000	4,322,050	11,547,050	84,855,000
2013	7,555,000	3,984,591	11,539,591	77,300,000
2014	7,500,000	3,635,124	11,135,124	69,800,000
2015	7,085,000	3,286,294	10,371,294	62,715,000
2016	6,055,000	2,960,976	9,015,976	56,660,000
2017	5,485,000	2,667,432	8,152,432	51,175,000
2018	5,760,000	2,382,337	8,142,337	45,415,000
2019	6,065,000	2,081,968	8,146,968	39,350,000
2020	6,380,000	1,764,148	8,144,148	32,970,000
2021	6,720,000	1,428,489	8,148,489	26,250,000
2022	5,525,000	1,112,464	6,637,464	20,725,000
2023	5,805,000	826,489	6,631,489	14,920,000
2024	6,100,000	536,526	6,636,526	8,820,000
2025	4,595,000	288,332	4,883,332	4,225,000
2026	4,225,000	91,788	4,316,788	-
Total	$ 117,840,147	$ 52,162,487	$ 170,002,634	

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