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INNOVATIVE STUDENT FACILITIES, INC.

(Audited Financial Statements and Other Information)

RUSTON, LOUISIANA

JUNE 30, 2011 AND 2010

INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

TABLE OF CONTENTS

AUDITED FINANCIAL STATEMENTS

OTHER REPORTS

AUDITED FINANCIAL STATEMENTS

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August 8, 2011

The Board of Directors
Innovative Student Facilities, Inc.
Ruston, Louisiana

Independent Auditors' Report

We have audited the accompanying statements of financial position of Innovative Student Facilities, Inc. at June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Innovative Student Facilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Innovative Student Facilities, Inc. at June 30, 2011 and 2010, and the changes in its net assets 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 a report dated August 8, 2011, on our consideration of Innovative Student Facilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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.

Heard, McElroy & Vestal, LLC

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INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

ASSETS	2011	2010
Cash and cash equivalents (Notes 2 and 9)	13,199,691	18,222,919
Prepaid bond cost (Note 3)	1,427,856	1,482,078
Construction in progress (Note 4)	47,042,336	39,901,377
Property, plant, and equipment, net of accumulated depreciation (Note 5)	16,485,604	17,004,562
Total assets	78,155,487	76,610,936
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	10,308	187,900
Accrued interest payable	1,020,913	1,031,863
Bonds payable, net of discount (Note 6)	70,179,018	71,061,777
Total liabilities	71,210,239	72,281,540
Net assets:		
Unrestricted	6,298,477	3,622,502
Temporarily restricted (Note 9)	646,771	706,894
Total net assets	6,945,248	4,329,396
Total liabilities and net assets	78,155,487	76,610,936

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Rent income	4,160,375	229,610	4,389,985
Investment income	608	-	608
Total revenue	4,160,983	229,610	4,390,593
Net assets released from restrictions	289,733	(289,733)	-
Expenses:			
Amortization of bond discount (Notes 3 and 6)	86,463	-	86,463
Depreciation expense	518,958	-	518,958
Interest expense	879,375	-	879,375
Maintenance expense	289,733	-	289,733
Bank fees	212	-	212
Total expenses	1,774,741	-	1,774,741
Change in net assets	2,675,975	(60,123)	2,615,852
Net assets-beginning of year	3,622,502	706,894	4,329,396
Net assets-end of year	6,298,477	646,771	6,945,248

See accompanying notes to financial statements.

2010		
Unrestricted	Temporarily Restricted	Total
4,079,238	229,610	4,308,848
34	-	34
4,079,272	229,610	4,308,882
140,689	(140,689)	-
86,463	-	86,463
518,958	-	518,958
890,176	-	890,176
140,689	-	140,689
27	-	27
1,636,313	-	1,636,313
2,583,648	88,921	2,672,569
1,038,854	617,973	1,656,827
3,622,502	706,894	4,329,396

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Rent income	4,389,985	4,308,848
Investment income	608	34
Interest paid on bonds	(879,375)	(890,176)
Maintenance expense	(289,733)	(140,689)
Bank fees	(212)	(27)
Net cash provided by operating activities	3,221,273	3,277,990
Cash flows from investing activities:		
Capital expenditures (including capitalized interest)	(7,329,501)	(9,400,042)
Net cash (used) by investing activities	(7,329,501)	(9,400,042)
Cash flows from financing activities:		
Repayment of bonds payable	(915,000)	(815,000)
Net cash (used) by financing activities	(915,000)	(815,000)
Net (decrease) in cash and cash equivalents	(5,023,228)	(6,937,052)
Cash and cash equivalents-beginning of year	18,222,919	25,159,971
Cash and cash equivalents-end of year	13,199,691	18,222,919
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	2,615,852	2,672,569
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	86,463	86,463
Depreciation of property, plant, and equipment	518,958	518,958
Other adjustments	-	-
Net cash provided by operating activities	3,210,323	3,277,990
Supplemental Cash Flow Information:		
Interest paid (net of capitalized interest of $2,336,000 and $2,356,800, respectively)	884,775	899,769

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Nature of Activities

Innovative Student Facilities, Inc. (the "Corporation") was formed July 1, 2003 to acquire, construct, develop, manage, lease as lessor or lessee, mortgage and/or convey student housing and other facilities (the "Facilities") on the campus of Louisiana Tech University (the "University"). The construction projects are funded by Louisiana Local Government Environmental Facilities and Community Development Authority (the "Authority") Revenue Bonds. The proceeds of the bonds have been loaned by the Authority to the Corporation pursuant to a Loan and Assignment Agreement dated July 1, 2003 and September 1, 2007 and are to be used for (1) financing the cost of acquiring immovable property to be purchased by the Board; (2) financing a portion of the cost of the development, design, construction and equipping of the Facilities; (3) paying capitalized interest on the Bonds; (4) funding a debt service reserve fund; (5) paying the costs of issuance of the Bonds, including the premium for the Financial Guaranty Insurance Policy; and (6) payment for construction of new facilities and repairs and maintenance to existing facilities.

The Corporation will lease the land upon which the Facilities are constructed for $1 per year from the Board of Supervisors for the University of Louisiana System (the "Board") pursuant to the Ground Lease Agreements dated July 1, 2003 and September 1, 2007. Upon completion of construction, the Board will lease back the Facilities from the Corporation pursuant to the Agreements to Lease with Option to Purchase (the "Facilities Lease") dated July 1, 2003 and September 1, 2007. In accordance with the Facilities Lease, the Board, on behalf of the University, will pay Rental to the Corporation in an amount sufficient to pay debt service and related expenses on the Bonds. The Facilities Lease is a triple net lease and the Board agrees that the Rental shall be an absolute net return to the Corporation free and clear of any expenses, charges, taxes or set-offs whatsoever of any kind, character or nature; the Board shall bear responsibility for the payment of all costs and expenses associated with the ownership, operation and maintenance of the Facilities. Under no circumstances will the Corporation be required to make any payments on the Board's behalf or assume any monetary obligation of the Board under the Facilities Lease.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America. Accordingly, they reflect revenues and related receivables when earned rather than when received and expenses and related payables when incurred rather than when paid.

Net assets, revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions.

Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. However, these assets may be designated by management for specific purposes.

1. Organization and Significant Accounting Policies (Continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Corporation and/or passage of time. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all of, or part of, the income earned on the related investments for general or specific purposes.

Net Assets Released from Restrictions
Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash Equivalents
For financial statement purposes, the Corporation considers all deposits in money market funds to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of money market funds collateralized by U.S. Treasury securities in the amount of $13,199,691 at June 30, 2011 and $18,222,919 at June 30, 2010. Such money market funds are exposed to custodial credit risk because the money market funds are uninsured and collateralized with securities held by the trust department of J. P. Morgan Chase and Bank of New York.

3. Prepaid Bond Costs

The Series 2007 Bonds were issued to include some additional prepaid bond costs, including but not limited to, bond issuance premium, underwriter's discount, and other costs. These costs are being amortized over the life of the bond on the straight-line basis. Amortization expense recorded in the statement of activities totaled $86,463 for the years ended June 30, 2011 and 2010.

4. Construction in Progress

Construction in progress consists of construction costs completed through the date of the financial statements on the Corporation's new construction on the University's campus. The scope of the construction will include three (3) segments: Phase II Housing, Recreation Facilities, and Other Athletic/Intramural Facilities. Phase II Housing includes construction of an approximately 500-bed apartment style development, with Phase I, a 448-bed development being completed in 2005. The Recreation Facilities include renovation and new construction at the University's Maxie Lambright Intramural Sports Center to include a new 50-meter competition pool, a new atrium, food service, seating, a rock-wall, new bowling lanes and new classroom space. The Other Athletic/Intramural Facilities include new tennis courts, new locker and restroom facilities for intramural and athletic use, and construction of a new track surface and football stadium jumbotron.

4. ***Construction in Progress*** **(Continued)**

The Corporation entered into a contract (the "Architecture Contract") with Tipton Associates (the "Architects") to provide for the design and engineering of the project. Additionally, the Corporation entered into a contract (the "Construction Contract") with Lincoln Builders, Inc. (the "Builder") to provide for the construction of the described project.

The Architecture Contract required the Architects to perform the design and engineering of the development as generally described in a master plan prepared for the Board. The Architects worked concurrently with the Builder, the Corporation and the Corporation's Advisory Committee to design the development. Upon the Corporation's approval of the designed development, the Builder provided the Corporation with a guaranteed maximum price to construct the development including all fees for the Builder and its subcontractors.

All costs recorded in construction in progress are directly related to the construction of Phase II Housing, Recreational Facilities, and the Other Athletic/Intramural Facilities. The entire balance of construction in progress will be transferred to property and equipment upon completion of construction. Capitalized interest costs included in construction in progress totaled $2,330,450 for the year ended June 30, 2011. Total interest expense on the bonds capitalized since issuance date (September 26, 2007) to the date of the financial statements is $8,856,643.

5. **Property, Plant and Equipment**

Property, plant and equipment are depreciated using the straight-line method. Land improvements are depreciated over 20 years, buildings over 40 years, and furniture, fixtures, and equipment over 10 years. At June 30, 2011 and 2010, property, plant and equipment are comprised of the following:

	2011	2010
Land	951,774	951,774
Land improvements	117,700	117,700
Buildings	18,264,216	18,264,216
Furniture, fixtures, and equipment	564,673	564,673
	19,898,363	19,898,363
Less-accumulated depreciation	(3,412,759)	(2,893,801)
Net property, plant, and equipment	16,485,604	17,004,562

Depreciation of $518,958 was recorded for the years ended June 30, 2011 and 2010.

6. **Bonds Payable**

Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds were issued for the purpose of providing funds to pay for the construction of the campus to be occupied by Louisiana Tech University. Following is a summary of both Phase I and Phase II, respectively, bonds payable at June 30, 2011 and 2010:

	2011	2010
Phase I Bond Issue:		
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2003 Serial Bonds, interest rates ranging from 2.0% to 3.575%, principal payments begin July 1, 2006, final maturity July 1, 2013.	1,275,000	1,635,000

6. Bonds Payable (Continued)

	2011	2010
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2003 Term Bonds, $1,045,000 bearing interest at 4.0% due July 1, 2015, $1,875,000 bearing interest at 4.0% due July 1, 2018, $4,200,000 bearing interest at 4.375% due July 1, 2023, $5,305,000 bearing interest at 4.5% due July 1, 2028, $6,635,000 bearing interest at 4.5% due July 1, 2033.	19,060,000	19,060,000
	20,335,000	20,695,000
Less-original issue discount	(320,019)	(334,565)
Total Phase I bonds payable	20,014,981	20,360,435

The 2003 bonds were issued at a discount of $436,386. This discount is being amortized over the life of the bonds on the straight-line basis. Amortization expense recorded in the statement of activities totaled $14,546 for the years ended June 30, 2011 and 2010.

The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2011 are as follows:

2012	1,263,281
2013	1,285,281
2014	1,305,613
2015	1,327,850
2016	1,351,950
2017-2021	7,071,125
2022-2026	7,416,143
2027-2031	7,411,675
2032-2034	4,446,425
	32,879,343
Less-interest	(12,544,343)
Outstanding principal-Phase I	20,335,000

Interest expense for the years ended June 30, 2011 and 2010 was $879,375 and $890,176, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2011 and 2010 was $0.

	2011	2010
Phase II Bond Issue:		
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2007 Serial Bonds, interest rates ranging from 4.00% to 5.25%, principal payments begin October 1, 2009, final maturity October 1, 2018.	7,465,000	8,020,000

6. **Bonds Payable** **(Continued)**

	2011	2010
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2007 Term Bonds, $4,460,000 bearing interest at 5.25% due October 1, 2021, $3,380,000 bearing interest at 4.25% due October 1, 2023, $7,850,000 bearing interest at 5.25% due October 1, 2027, $4,550,000 bearing interest at 4.50% due October 1, 2029, $7,650,000 bearing interest at 4.50% due October 1, 2032; and $15,275,000 bearing interest at 4.50% due October 1, 2037.	43,165,000	43,165,000
	50,630,000	51,185,000
Less-original issue discount	(465,963)	(483,658)
Total Phase II bonds payable	50,164,037	50,701,342

The 2007 bonds were issued at a discount of $530,845. This discount is being amortized over the life of the bonds on the straight-line basis. Amortization expense recorded in the statement of activities totaled $17,695 for the years ended June 30, 2011 and 2010.

The annual debt service requirements to maturity, including principal and interest, for Phase II bonds payable as of June 30, 2011 are as follows:

2012	2,922,700
2013	2,971,800
2014	3,032,600
2015	3,094,700
2016	3,157,900
2017-2018	6,493,900
2019-2020	6,742,313
2021-2022	6,817,574
2023-2025	10,233,125
2026-2028	10,235,800
2029-2031	10,236,975
2032-2034	10,236,500
2035-2038	13,640,263
	89,816,150
Less-interest	(39,186,150)
Outstanding principal-Phase II	50,630,000

Interest expense for the years ended June 30, 2011 and 2010 was $2,336,000 and $2,356,800, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2011 and 2010 was $2,336,000 and $2,356,800, respectively.

Payments of scheduled principal and interest on the bonds, when due, are insured by Ambac Assurance Corporation.

7. **Income Taxes**
The Corporation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3). Therefore, no provision for income taxes has been made in the financial statements, but the Corporation is required to file an annual information tax return. The Corporation is also required to review various tax positions it has taken with respect to its exempt status and determine whether in fact it is a tax exempt entity. The Corporation must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax exempt entity, the Corporation must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Corporation does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Corporation's accounting records.

The Corporation files U.S. federal Form 990 for informational purposes. The Corporation's federal income tax returns for the tax years 2007 and subsequent remain subject to examination by the Internal Revenue Service.

8. **Risks and Uncertainties**
As discussed in Note 1, the Corporation is dependent upon the State of Louisiana Legislature appropriating funds to the Board sufficient to make payments of base rental to the Corporation.

9. **Reserved Cash**
The Board of Supervisors for the University of Louisiana System shall bear responsibility for the payment of all costs and expenses associated with the ownership, operation, and maintenance of the student housing and other liabilities as described in Note 1. Included in reserved cash, which are required to be kept in a separate bank account, are amounts received from the Board for the operation and maintenance of the Facilities. Reserved cash at June 30, 2011 and 2010 was $688,071 and $748,194, respectively.

10. **Subsequent Events**
The Corporation has evaluated subsequent events through August 8, 2011, the date which the financial statements were available to be issued. Management is not aware of any significant subsequent events as of this date.

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August 8, 2011

The Board of Directors
Innovative Student Facilities, Inc.
Ruston, Louisiana

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated July 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Innovative Student Facilities, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information of management, the board of directors, and the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLC

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated August 8, 2011. 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. Our audit of the financial statements as of June 30, 2011 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control – No significant deficiencies or material weaknesses were noted; no management letter was issued.

Compliance - No material noncompliance was noted.

b. Federal Awards – Innovative Student Facilities, Inc. was not subject to a federal single audit for the year ended June 30, 2011.

Section II - Financial Statement Findings

No **current year** findings or questioned costs were reported for the year ended June 30, 2011.

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2011

No prior year findings or questioned costs were reported for the year ended June 30, 2010.

See accompanying notes to financial statements.