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INNOVATIVE STUDENT FACILITIES, INC.
(Audited Financial Statements and Other Information)
RUSTON, LOUISIANA
JUNE 30, 2016 AND 2015

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUN 14 2017

INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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September 15, 2016

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Innovative Student Facilities, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Innovative Student Facilities, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of Innovative Student Facilities, Inc.'s internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Innovative Student Facilities, Inc.'s internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	10,349,488	16,133,127
Prepaid bond cost	1,276,652	1,504,780
Deferred loss on bond refinancing	163,372	172,448
Construction in progress	64,175	14,030,460
Property, plant, and equipment, net of accumulated depreciation	<u>83,976,329</u>	<u>65,789,682</u>
Total assets	<u>95,830,016</u>	<u>97,630,497</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	-	-
Accrued interest payable	900,361	967,870
Deferred revenue – Louisiana Tech University	-	-
Bonds payable, net of discount	<u>77,929,977</u>	<u>74,346,707</u>
Total liabilities	<u>78,830,338</u>	<u>75,314,577</u>
 Net assets:		
Unrestricted:		
Undesignated	958,115	6,603,711
Temporarily restricted	<u>16,041,563</u>	<u>15,712,209</u>
Total net assets	<u>16,999,678</u>	<u>22,315,920</u>
Total liabilities and net assets	<u>95,830,016</u>	<u>97,630,497</u>

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue:</u>			
Rent income	4,468,921	761,984	5,230,905
Gifts and grants income	-	-	-
Investment income	<u>2,104</u>	<u>-</u>	<u>2,104</u>
Total revenue	4,471,025	761,984	5,233,009
<u>Net assets released from restrictions</u>	432,630	(432,630)	-
<u>Expenses:</u>			
Amortization of bond discount, premium, and prepaid bond costs	1,514,564	-	1,514,564
Depreciation expense	2,543,261	-	2,543,261
Interest expense	6,058,796	-	6,058,796
Maintenance expense	432,630	-	432,630
Bank fees	-	-	-
Total expenses	<u>10,549,251</u>	<u>-</u>	<u>10,549,251</u>
<u>Change in net assets</u>	(5,645,596)	329,354	(5,316,242)
<u>Net assets-beginning of year</u>	<u>6,603,711</u>	<u>15,712,209</u>	<u>22,315,920</u>
<u>Net assets-end of year</u>	<u>958,115</u>	<u>16,041,563</u>	<u>16,999,678</u>

See accompanying notes to financial statements.

2015		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
4,943,014	761,984	5,704,998
-	-	-
<u>2,205</u>	<u>-</u>	<u>2,205</u>
4,945,219	761,984	5,707,203
484,108	(484,108)	-
64,680	-	64,680
2,025,014	-	2,025,014
2,851,194	-	2,851,194
484,108	-	484,108
<u>15</u>	<u>-</u>	<u>15</u>
<u>5,425,011</u>	<u>-</u>	<u>5,425,011</u>
4,316	277,876	282,192
<u>6,599,395</u>	<u>15,434,333</u>	<u>22,033,728</u>
<u>6,603,711</u>	<u>15,712,209</u>	<u>22,315,920</u>

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash flows from operating activities:</u>		
Rent income	5,230,905	5,704,998
Gifts and grants income	-	-
Investment income	2,104	2,205
Interest paid on bonds	(6,126,305)	(2,865,544)
Maintenance expense	(432,630)	(484,108)
Bank fees and other expenses	-	(15)
Net cash provided by operating activities	<u>(1,325,926)</u>	<u>2,357,536</u>
<u>Cash flows from investing activities:</u>		
Capital expenditures (including capitalized interest)	(6,763,623)	(13,133,607)
Increase in prepaid bond cost	<u>(1,019,550)</u>	<u>-</u>
Net cash (used) by investing activities	<u>(7,783,173)</u>	<u>(13,133,607)</u>
<u>Cash flows from financing activities:</u>		
Repayment of bonds payable	(48,510,000)	(1,645,000)
Issuance of refinancing bonds	43,020,000	-
Issuance of new bonds	4,000,000	-
Net premium on bond issuance, net	<u>4,815,460</u>	<u>-</u>
Net cash (used) by financing activities	<u>3,325,460</u>	<u>(1,645,000)</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	(5,783,639)	(12,421,071)
<u>Cash and cash equivalents-beginning of year</u>	<u>16,133,127</u>	<u>28,554,198</u>
<u>Cash and cash equivalents-end of year</u>	<u>10,349,488</u>	<u>16,133,127</u>
<u>Reconciliation of change in net assets to net cash provided by operating activities:</u>		
Change in net assets	(5,316,242)	282,192
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>		
Amortization of prepaid bond costs	1,247,678	68,272
Amortization of bond (premium) discount	257,810	(12,668)
Amortization of deferred loss on bond refinancing	9,076	9,076
Depreciation of property, plant, and equipment	2,543,261	2,025,014
(Decrease) in accounts payable	-	-
Increase (decrease) in accrued interest payable	(67,509)	(14,350)
Increase in deferred revenue – Louisiana Tech University	-	-
Net cash provided by operating activities	<u>(1,325,926)</u>	<u>2,357,536</u>

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, September 1, 2007 and June 1, 2016. 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.

The Corporation has entered into an agreement with the State of Louisiana, Louisiana Tech University, the Louisiana Tech University Foundation, Inc. and the Louisiana Tech Student Fund 2020 during the fiscal year ended June 30, 2015 to be the custodian of funds procured for the construction of the south end zone project for Joe Aillet Stadium (the "Athletic Facilities Project"). The Corporation will be charged with the payment of all invoices related to the construction, and the accounting for the same. Funds contributed to the Corporation by the above listed entities are maintained in separate cash accounts and are accounted for by the Corporation's staff and recorded as gifts and grants income until such time as the funds are expended for the construction. In addition to the contributed funds, the Corporation also issued Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds for the purpose of additional financing of the Athletic Facilities Project, see Note 6 for further details of the bond issue.

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.

1. Organization and Significant Accounting Policies (Continued)

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.

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 \$10,349,488 at June 30, 2016 and \$16,133,127 at June 30, 2015. These 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. Bond Premium/Discount and Prepaid Bond Costs

The Series 2007, 2013, 2014 and 2015 Bonds were issued to include some additional prepaid bond costs, including but not limited to, bond issuance premium (discount), underwriter's discount, and other costs. These costs are being amortized over the life of the bond on the straight-line basis. Net amortization expense related to the prepaid bond cost, discounts, and premiums recorded in the statement of activities totaled \$1,514,564 and \$64,680 for the years ended June 30, 2016 and 2015.

4. Construction in Progress

Phase II Construction (2007 Series):

Construction in progress consisted 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 25-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 jumbo-tron.

All costs recorded in construction in progress in prior years were directly related to the construction of Phase II Housing, Recreational Facilities, and the Other Athletic/Intramural Facilities. The entire balance of construction in progress was transferred to property and equipment upon completion of construction (May 15, 2013).

Phase III Construction-Athletic Facilities (2014 Series):

Construction in progress consists of current construction costs presented for payment through the date of the financial statements of the Corporation on the addition to the Athletic Facilities Project. The construction of the approximately 70,000 square foot facility will close the south end of Joe Aillet Stadium. The scope of the construction project includes, but is not limited to, a new state of the art strength and condition complex, coach's offices, football locker room, meeting rooms, club seating, and a multi-functional dining facility. Construction commenced in April 2014 and expected completion date is scheduled for August 2015.

All costs recorded in construction in progress in the current period are directly related to the construction of the south end zone at the stadium, including any interest accrued and/or paid during the construction phase. Once completed, the entire balance of construction in progress will be transferred to property and equipment upon completion of construction.

For the project, the Corporation entered into a contract (the "Architecture Contract") with Tim Brandon Architecture (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.

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, 2016 and 2015, property, plant and equipment are comprised of the following:

5. **Property, Plant and Equipment** (Continued)

	<u>2016</u>	<u>2015</u>
Land	3,051,774	3,051,774
Land improvements	117,700	117,700
Buildings	77,023,207	56,293,299
Furniture, fixtures, and equipment	969,748	969,748
Recreational facilities	13,688,500	13,688,500
Track and tennis facilities	<u>1,868,726</u>	<u>1,868,726</u>
	96,719,655	75,989,747
<u>Less-accumulated depreciation</u>	<u>(12,743,326)</u>	<u>(10,200,065)</u>
Net property, plant, and equipment	<u>83,976,329</u>	<u>65,789,682</u>

Depreciation of \$2,543,261 and \$2,025,014 was recorded for the years ended June 30, 2016 and 2015.

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 facilities to be occupied by Louisiana Tech University. Following is a summary of Phase III, Phase II, and Phase I respectively, bonds payable at June 30, 2016 and 2015:

As of April 1, 2014, the Board of Directors approved the issuance of \$9,000,000 aggregate principal amount of Louisiana Local Government Environmental Facility and Community Development Authority Revenue Refund Bonds, Series 2014 for the purpose of acquiring, designing, developing, constructing, renovating, and reconstructing of certain athletic and student facilities on the main campus of Louisiana Tech University. The issuance was made pursuant to Chapter 10-D of Title 33 of the Louisiana Revised Statutes of 1950, as amended, and also under other constitutional and statutory authority. A summary of the Revenue Refunding Series 2014 bonds are as follows:

Athletic Facilities Project (2014 Issue):

	<u>2016</u>	<u>2015</u>
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2015 Serial Bonds, bearing a 4.48% interest rate, principal payments begin April 1, 2015; final maturity April 1, 2029.	3,785,000	3,995,000
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2015 Term Bonds, \$2,135,000 bearing interest at 4.48% due April 1, 2034 and \$2,660,000 bearing interest at 4.48% due April 1, 2039.	<u>4,795,000</u>	<u>4,795,000</u>
	8,580,000	8,790,000
<u>Less-original issue discount, net</u>	<u>-</u>	<u>-</u>
Total Phase I bonds payable	<u>8,580,000</u>	<u>8,790,000</u>

6. **Bonds Payable** (Continued)

The annual debt service requirements to maturity, including principal and interest, for the refunding bonds payable as of June 30, 2016 are as follows:

2017	604,384
2018	604,528
2019	604,224
2020	603,472
2021	607,272
2022	605,400
2023	603,080
2024	605,312
2025	606,872
2026	607,760
2027	602,976
2028	607,744
2029	606,616
2030	604,816
2031	607,344
2032	603,976
2033	604,936
2034	605,000
2035	604,168
2036	607,440
2037	604,592
2038	605,848
2039	<u>605,984</u>
	13,923,744
<u>Less-interest</u>	<u>(5,343,744)</u>
Outstanding principal-Athletic Facilities	<u>8,580,000</u>

Interest expense for the years ended June 30, 2016 and 2015 was \$391,440 and \$-0-. Interest capitalized related to this bond issue for the years ended June 30, 2016 and 2015 was \$-0- and \$491,568, respectively, and is included in construction in progress.

Phase I Bond Refunding Issue (2003/2013 Issue):

As of June 6, 2013, the Board of Directors approved the issuance of \$19,065,000 aggregate principal amount of Louisiana Local Government Environmental Facility and Community Development Authority Revenue Refunding Bonds, Series 2013 for the purpose of refunding and extending the above Revenue Bonds, Series 2003. The issuance was made pursuant to Chapter 14-A of Title 39 of the Louisiana Revised Statutes of 1950, as amended, and also under other constitutional and statutory authority. A summary of the Revenue Refunding Series 2013 bonds are as follows:

6. **Bonds Payable (Continued)**

<u>Phase I Bond Refunding Issue (2003/2013 Issue):</u>	<u>2016</u>	<u>2015</u>
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2014 Serial Bonds, interest rates ranging from 3.00% to 4.00%, principal payments begin July 1, 2014, final maturity July 1, 2030.	13,875,000	14,485,000
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2014 Term Bonds, \$1,235,000 bearing interest at 5.00% due July 1, 2031, \$1,300,000 bearing interest at 5.00% due July 1, 2032, \$665,000 bearing interest at 5.00% due July 1, 2033.	<u>3,200,000</u>	<u>3,200,000</u>
	17,075,000	17,685,000
<u>Plus-original issue premium, net</u>	<u>546,527</u>	<u>576,890</u>
Total Phase I Refunding bonds payable	<u>17,621,527</u>	<u>18,261,890</u>

The 2013 refunding issue bonds were issued at a premium of \$637,632, and the underwriter's discount of \$142,987 was expensed for the year ended of June 30, 2014. This premium is being amortized over the life of the bonds on the straight-line basis. Amortization recorded in the statement of activities totaled \$30,363 for the years ended June 30, 2016 and 2015.

The annual debt service requirements to maturity, including principal and interest, for the refunding bonds payable as of June 30, 2015 are as follows:

2017	1,242,369
2018	1,267,644
2019	1,291,569
2020	1,319,068
2021	1,364,769
2022	1,368,969
2023	1,362,843
2024	1,366,043
2025	1,367,619
2026	1,362,368
2027	1,364,925
2028	1,360,800
2029	1,364,847
2030	1,361,250
2031	1,360,650
2031-2033	<u>3,411,500</u>
	23,537,233
<u>Less-interest</u>	<u>(6,462,233)</u>
Outstanding principal-Phase I	<u>17,075,000</u>

6. **Bonds Payable (Continued)**

Interest expense for the years ended June 30, 2016 and 2015 was \$616,894 and \$635,194, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2016 and 2015 was \$-0-.

	<u>2016</u>	<u>2015</u>
<u>Phase II Bond Issue (2007 Issue):</u>		
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.	-	4,525,000
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.	-	<u>43,165,000</u>
	-	47,690,000
<u>Less-original issue discount, net</u>	-	<u>(395,183)</u>
Total Phase II bonds payable	-	<u><u>47,294,817</u></u>

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 \$395,183 and \$17,695 for the years ended June 30, 2016 and 2015.

The annual debt service requirements to maturity, including principal and interest, for Phase II bonds payable as of June 30, 2015 are as follows:

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	<u>13,640,263</u>
	77,794,350
Less: --interest	(30,104,350)
--defeasance bond payoff	<u>(47,690,000)</u>
Outstanding principal-Phase II	<u><u>-</u></u>

6. Bonds Payable (Continued)

Interest expense for the years ended June 30, 2015 and 2016 was \$4,105,453 and \$2,216,000 respectively. Interest capitalized related to this bond issue for the years ended June 30, 2016 and 2015 was \$-0- and \$-0-, respectively.

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

Refunding Bond Issue (2015 Issue)

On December 1, 2015, the Board of Directors approve the issuance of \$43,020,000 aggregate principal amount of Louisiana Local Government Environmental Facility and Community Development Authority Revenue Refunding Bonds, (Louisiana Tech University Student Housing/Innovative Student Facilities, Inc. Project) Series 2015 pursuant to Chapter 10-D of Title 33 of the Louisiana Revised Statutes of 1950, as amended, and Chapter 14-A of Title 39 of the Louisiana Revised Statutes of 1950, (collectively, the "Refunding Act"). The bonds are issued in order to enable Innovative Student Facilities, Inc., a Louisiana non-profit corporation, sufficient funds to advance refund the prior 2007 Series bonds and paying costs of issuance of the Series 2015 bonds, including the premiums for a bond insurance policy and other costs of issuance. The Series 2015 bonds were also issued with a "reoffering premium" of \$4,815,460. As with previous bonds, the Corporation has leased the property from the Board of Supervisors for the University of Louisiana System pursuant to a Ground and Buildings Lease Agreement also dated December 1, 2015. The bond will carry a variable interest rate over the term of the bond ranging from 2.00% - 5.00% interest rate of 4.50%, be payable in semi-annual principal and interest payments each April 1 and October 1, with a final maturity on October 1, 2037. A summary of the Refunding Bonds, Series 2015 is as follows:

Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Refunding Bonds, Series 2015, interest rates from 2.00% - 5.00%, with final maturity due October 1, 2037	43,020,000
Add-refunding premium	<u>4,708,450</u>
Total Series 2015B bonds payable	<u>47,728,450</u>

The 2015 bonds were issued with a refunding premium of \$4,815,460 that is being amortized into income over the life of the bonds on a straight-line basis. Income recorded in the statement of activities totaled \$107,010 for the year ended June 30, 2016.

The annual debt service requirements to maturity, including principal and interest, for the Series 2015 bonds payable as of June 30, 2016 is as follows:

2016	477,697
2017	2,923,600
2018	2,961,000
2019	3,060,075
2020	3,074,600
2021	3,104,150
2022	3,105,950
2023	3,109,700

6. **Bonds Payable** (Continued)

2024	3,103,950
2025	3,109,325
2026	3,110,450
2027	3,107,325
2028	3,109,700
2029	3,107,575
2030	3,107,050
2031	3,112,525
2032	3,107,650
2033	3,107,275
2034	3,110,900
2035	3,308,150
2036	3,306,200
2037	3,308,000
2038	<u>3,305,625</u>
	69,238,472
<u>Less-interest</u>	<u>(26,218,472)</u>
Outstanding principal-2015 Series	<u>43,020,000</u>

Interest expense was \$945,009 for the year ended June 30, 2016.

A portion of the proceeds of the Series 2015 Bonds, together with prior issue reserve funds will be deposited into the Escrow Fund created pursuant to an Escrow Deposit Agreement dated as of December 1, 2015 between the corporation and the Escrow Agent. The Escrow Fund will be held by the Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent") pursuant to the Escrow Agreement. Funds deposited and accruing into the Escrow Fund will be used by the Escrow Agent to defease the principal and interest on the Series 2007 Bonds maturing on October 1, 2017 and to pay the full amount of the principal of and interest on all remaining maturities of the Series 2007 Bonds on October 1, 2017, the first optional redemption date of the Series 2007 Bonds.

Upon the making of such deposit into the Escrow Fund, the Series 2007 Bonds will have been defeased, will be deemed to have been paid and will no longer be considered outstanding. The covenants, agreements and obligations of the corporation with respect to the Series 2007 Bonds will have been discharged and satisfied and the Series 2007 Bonds will no longer be entitled to any benefits. The Escrow Fund shall be held by the Escrow Agent separate and apart from all other funds or accounts held by the Trustee. The Trustee will have no lien whatsoever upon any moneys in the Escrow Fund for any of its fees and costs incurred in carrying out the provisions of the Indenture, which fees and costs will be paid to the Trustee by the corporation from other available funds.

Taxable Subordinate Revenue Bond (2016 Issue)

On June 1, 2016, the Board of Directors approve the issuance of \$4,000,000 aggregate principal amount of Louisiana Local Government Environmental Facility and Community Development Authority Taxable Subordinate Revenue Bonds, (Louisiana Tech University Student Housing/Innovative Student Facilities, Inc. Project) Series 2016B pursuant to Chapter 10-D of Title 33 of the Louisiana Revised Statutes of 1950, as amended. The bonds are issued in order to enable Innovative Student Facilities,

6. **Bonds Payable** (Continued)

Inc., a Louisiana non-profit corporation to provide financing for the acquisition, design, development, construction, renovation, and reconstruction of certain student housing and parking facilities on the campus of Louisiana Tech University and for paying the costs of issuance of the related bonds. As with previous bonds, the Corporation has leased the property from the Board of Supervisors for the University of Louisiana System pursuant to a Ground and Buildings Lease Agreement also dated June 1, 2016. The bond will carry an interest rate of 4.50%, be payable in semi-annual principal and interest payments each March 15 and September 15, with a final maturity on October 1, 2046. A summary of the Taxable Subordinate Revenue Bonds, Series 2016B is as follows:

Louisiana Local Government Environmental Facilities and Community Development Authority Taxable Subordinate Revenue Bonds, Series 2016B, interest at 4.50% due October 1, 2046	4,000,000
Less-original issue discount	<u> -</u>
Total Series 2016B bonds payable	<u>4,000,000</u>

The annual debt service requirements to maturity, including principal and interest, for the Series 2016B bonds payable as of June 30, 2016 is a follows:

2017-2034	3,210,500
2035	404,825
2036	404,250
2037	408,112
2038	408,113
2039	404,263
2040	406,550
2041	408,163
2042	409,100
2043	404,475
2044	404,287
2045	408,313
2046	406,550
2047	<u>407,299</u>
	8,494,800
<u>Less-interest</u>	<u>(4,494,800)</u>
Outstanding principal-2016B Series	<u>4,000,000</u>

Interest expense for the year ended June 30, 2016 was \$-0-.

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

7. **Income Taxes** (Continued)

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 after 2012 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, 2016 and 2015 was \$4,740,538 and \$4,361,549, respectively.

10. **Subsequent Events**

The Corporation has evaluated subsequent events through September 15, 2016, the date which the financial statements were available to be issued. Management is not aware of any significant subsequent events as of this date.

OTHER REPORTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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September 15, 2016

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

**Independent Auditor's 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***

Independent Auditor's Report

We have audited, in accordance with the 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, the financial statements of Innovative Student Facilities, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Innovative Student Facilities, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Innovative Student Facilities, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Innovative Student Facilities, Inc.'s internal control.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Innovative Student Facilities Inc.'s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the year ended June 30, 2016, and have issued our report thereon dated September 15, 2016. 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, 2016 resulted in an unmodified opinion.

Section I - Summary of Auditor's Reports

a. The auditor's report expresses an unmodified opinion on the financial statements of Innovative Student Facilities, Inc.

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

Internal Control – No material weaknesses relating to the audit of the financial statements were reported, and no management letter was issued.

Compliance - No instances of noncompliance material to the financial statements of Innovative Student Facilities, Inc. were disclosed during the audit.

c. Federal Awards – Innovative Student Facilities, Inc. was not subject to a federal single audit for the year ended June 30, 2016.

Section II - Financial Statement Findings

No **current year** findings or questioned costs were reported for the year ended June 30, 2016.

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

No **prior year** findings or questioned costs were reported for the year ended June 30, 2015.

See accompanying notes to financial statements.