

INNOVATIVE STUDENT FACILITIES, INC.**RUSTON, LOUISIANA****JUNE 30, 2005 AND 2004**

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 9-21-05

INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

**HEARD
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August 4, 2005

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

Independent Auditors' Report

We have audited the statements of financial position of Innovative Student Facilities, Inc. at June 30, 2005 and 2004, 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, 2005 and 2004, 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 4, 2005, on our consideration of Innovative Student Facilities' internal control structure 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, LLP

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INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents-Note 2	1,977,541	1,661,585
Investments-Note 3	402,373	9,527,681
Accrued interest receivable	-	52,217
Construction in progress-Note 4	-	12,263,460
Property, plant, and equipment, net of accumulated depreciation-Note 5	<u>19,593,917</u>	<u>-</u>
Total assets	<u>21,973,831</u>	<u>23,504,943</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable (construction cost and retainage)	412,090	1,642,110
Accrued interest payable	459,219	459,219
Bonds payable, net of discount-Note 6	<u>21,432,706</u>	<u>21,418,160</u>
Total liabilities	22,304,015	23,519,489
Temporarily restricted net assets	<u>(330,184)</u>	<u>(14,546)</u>
Total liabilities and net assets	<u>21,973,831</u>	<u>23,504,943</u>

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>Revenue:</u>		
Rent income	457,138	-
<u>Expenses:</u>		
Amortization of bond discount-Note 6	14,546	14,546
Depreciation expense	299,011	-
Interest expense	<u>459,219</u>	<u>-</u>
Total expenses	<u>772,776</u>	<u>14,546</u>
<u>(Decrease) in temporarily restricted net assets</u>	(315,638)	(14,546)
<u>Temporarily restricted net assets-beginning of year</u>	<u>(14,546)</u>	<u>-</u>
<u>Temporarily restricted net assets-end of year</u>	<u>(330,184)</u>	<u>(14,546)</u>

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>Cash flows from operating activities:</u>		
Rent income	457,138	-
Interest paid on bonds	<u>(459,219)</u>	<u>-</u>
Net cash (used) by operating activities	(2,081)	-
<u>Cash flows from investing activities:</u>		
Capital expenditures	(8,501,163)	(9,790,846)
Net sale (purchase) of investments	9,125,308	(9,527,681)
Interest received on investments (capitalized)	153,111	-
Interest paid on bonds (capitalized)	<u>(459,219)</u>	<u>(423,502)</u>
Net cash provided (used) by investing activities	318,037	(19,742,029)
<u>Cash flows from financing activities:</u>		
Proceeds from bond issuance	<u>-</u>	<u>21,403,614</u>
Net cash provided by financing activities	<u>-</u>	<u>21,403,614</u>
<u>Net increase in cash and cash equivalents</u>	315,956	1,661,585
<u>Cash and cash equivalents-beginning of year</u>	<u>1,661,585</u>	<u>-</u>
<u>Cash and cash equivalents-end of year</u>	<u>1,977,541</u>	<u>1,661,585</u>
<u>Reconciliation of change in temporarily restricted net assets to net cash provided by operating activities:</u>		
Change in temporarily restricted net assets	(315,638)	(14,546)
Adjustments to reconcile change in temporarily restricted net assets to net cash provided by operating activities:		
Amortization of bond discount	14,546	14,546
Depreciation of property, plant, and equipment	<u>299,011</u>	<u>-</u>
Net cash (used) by operating activities	<u>(2,081)</u>	<u>-</u>

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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 project is 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 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; and (5) paying the costs of issuance of the Bonds, including the premium for the Financial Guaranty Insurance Policy.

The Corporation will lease the land upon which the Facilities will be constructed for \$1 per year from the Board of Supervisors for the University of Louisiana System (the "Board") pursuant to the Ground Lease Agreement dated July 1, 2003. Upon completion of construction, the Board will lease back the Facilities from the Corporation pursuant to an Agreement to Lease with Option to Purchase (the "Facilities Lease") dated July 1, 2003. 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 is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Basis of Financial Statements

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial position and statement of activities for the period. Actual results could differ from those estimates.

Net assets, revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. All of the net assets of the organization are temporarily restricted for the purpose of constructing and equipping the Facilities at June 30, 2005.

1. **Summary of Significant Accounting Policies** (Continued)

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.

Investments

Investments are composed of collateralized repurchase agreements and are carried at fair value. Unrealized gains and losses are included in the change in temporarily restricted net assets.

Investments consist of the following at December 31:

	<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>
Repurchase agreements	<u>402,373</u>	<u>402,373</u>
	<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>
Repurchase agreements	<u>9,527,681</u>	<u>9,527,681</u>

2. **Cash and Cash Equivalents**

Cash and cash equivalents consist of money market funds collateralized by U.S. Treasury securities in the amount of \$1,977,541 at June 30, 2005 and \$1,661,585 at June 30, 2004. 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.

3. **Investments**

On July 1, 2003, the Louisiana Local Government Environmental Facilities and Community Development Authority issued its \$21,840,000 Revenue Bonds, the proceeds of which were loaned to Innovative Student Facilities, Inc. Prior to expenditure by Innovative Student Facilities, \$14,950,000 of the bond proceeds were invested pursuant to a repurchase agreement by and between Monumental Life Insurance Company (as seller) and J. P. Morgan Trust Company (as buyer and trustee for the bonds). The repurchase agreement is collateralized by treasury and agency securities held at Wells Fargo Bank Minnesota (as custodian). The balance at June 30, 2005 is \$402,373 and June 30, 2004 is \$9,527,681.

4. **Construction in Progress**

Construction in progress consists of construction completed on the student apartment development. The new development consists of 448-bed apartment style development contained in 4 common areas. Each of the apartment style buildings is two or three stories. At least five percent (5%) of the total units are handicapped accessible. A total of 472 parking spaces are provided as part of the development. The on-campus site comprises approximately ten (10) acres.

The Corporation has entered into a contract (the "Architecture Contract") with STBP Architects and ABW Architects (the "Architects") to provide for the design and engineering of the apartment development. Additionally, the Corporation has entered into a contract (the "Construction Contract") with Lincoln Builders, Inc. (the "Builder") to provide for the construction of the apartment development.

4. Construction in Progress (Continued)

The Architecture Contract requires the Architects to perform the design and engineering of the development as generally described in a master plan prepared for the Board. The Architects have 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. Construction of the development was completed in three phases—September 2004, December 2004 and April 2005.

All costs recorded in construction in progress are directly related to the construction of the apartment development. Therefore, the entire balance of construction in progress was transferred to property and equipment upon completion of construction in April 2005. Depreciation expense of \$299,011 was recorded on these assets thereafter. Capitalized interest costs included in construction in progress total \$306,108 for the year ended June 30, 2005. This amount represents interest expense on the bonds before April 2005 which totaled \$459,219 in 2005, offset by \$153,111 in interest income earned on the bond proceeds in 2005. Total interest expense paid for the year ending June 30, 2005 was \$918,438 with \$459,219 being included in capitalized construction cost and \$459,219 being expensed on the Statement of Activities for the portion paid after construction was completed. Commitments for the construction project not yet complete total approximately \$-0- and \$6,719,321 at June 30, 2005 and 2004, respectively.

5. Property, Plant and Equipment

Property, plant and equipment is 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, 2005, property, plant and equipment is comprised of the following:

Land	951,774
Land improvements	115,200
Buildings	18,264,171
Furniture, fixtures, and equipment	<u>561,783</u>
Total	19,892,928
<u>Less-accumulated depreciation</u>	<u>299,011</u>
Net property, plant, and equipment	<u>19,593,917</u>

6. Bonds Payable

During 2003, 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 bonds payable at June 30, 2005:

	<u>2005</u>	<u>2004</u>
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.	2,780,000	2,780,000

6. **Bonds Payable** (Continued)

	<u>2005</u>	<u>2004</u>
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.	<u>19,060,000</u>	<u>19,060,000</u>
	21,840,000	21,840,000
<u>Less-original issue discount</u>	<u>(407,294)</u>	<u>(421,840)</u>
Total bonds payable	<u>21,432,706</u>	<u>21,418,160</u>

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, 2005 and 2004.

The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2005 are as follows:

2005	918,437
2006	918,437
2007	1,160,988
2008	1,180,500
2009	1,203,562
2010	1,224,919
2011-2015	6,426,800
2016-2020	6,940,682
2021-2025	7,416,613
2026-2030	7,411,938
2031-2034	<u>5,927,088</u>
	40,729,964
<u>Less-interest</u>	<u>(18,889,964)</u>
Outstanding principal	<u>21,840,000</u>

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

7. **Risks and Uncertainties**

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

OTHER REPORTS

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August 4, 2005

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, 2005 and 2004 and have issued our report thereon dated August 4, 2005. 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 internal control over financial reporting of Innovative Student Facilities, Inc. in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of Innovative Student Facilities, Inc. 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.

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Heard, McElroy & Vestal, LLP

INNOVATIVE STUDENT FACILITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated August 4, 2005. 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, 2005 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 material weakness or reportable condition was noted; no management letter was issued.

Compliance - No material noncompliance was noted.

b. Federal Awards - Not applicable.

Section II - Financial Statement Findings

No matters were reported.

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2005

No prior year findings were reported.

See accompanying notes to financial statements.