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INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

JUNE 30, 2009 AND 2008

INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

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CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET
15TH FLOOR
SHREVEPORT, LA 71101
318 429-1525
318 429-2070 FAX
POST OFFICE BOX 1607
SHREVEPORT, LA
71165-1607

PARTNERS
SPENCER BERNARD, JR., CPA
H.Q. GAHAGAN, JR., CPA, APC
GERALD W. HEDGCOCK, JR., CPA, APC
TIM B. NIELSEN, CPA, APC
JOHN W. DEAN, CPA, APC
MARK D. ELDREDGE, CPA
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ALICE V. FRAZIER, CPA
MELISSA D. MITCHAM, CPA, CFP

OF COUNSEL
GILBERT R. SHANLEY, JR., CPA
C. CODY WHITE, JR., CPA, APC
RON W. STEWART, CPA, APC

August 4, 2009

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, 2009 and 2008, 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, 2009 and 2008, 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, 2009, 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, LLP

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hmv@hmvcpa.com E-MAIL
www.hmvcpa.com WEB ADDRESS

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Cash and cash equivalents-Note 2 and 8	25,159,971	41,949,014
Prepaid bond cost-Note 3	1,536,300	1,590,522
Construction in progress-Note 4	32,089,988	12,876,161
Property, plant, and equipment, net of accumulated depreciation-Note 5	17,523,520	18,042,478
Total assets	76,309,779	74,458,175
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	1,766,960	810,037
Accrued interest payable	1,041,456	1,045,356
Bonds payable, net of discount-Note 6	71,844,536	72,112,295
Total liabilities	74,652,952	73,967,688
Net assets:		
Unrestricted	1,038,854	45,635
Temporarily restricted-Note 8	617,973	444,852
Total net assets	1,656,827	490,487
Total liabilities and net assets	76,309,779	74,458,175

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Rent income	2,308,031	229,610	2,537,641
Investment income	191,303	-	191,303
Total revenue	2,499,334	229,610	2,728,944
Net assets released from restrictions	56,489	(56,489)	-
Expenses:			
Amortization of bond discount-Note 6	86,463	-	86,463
Depreciation expense	518,958	-	518,958
Interest expense	899,662	-	899,662
Maintenance expense	56,489	-	56,489
Bank fees	1,032	-	1,032
Total expenses	1,562,604	-	1,562,604
Change in net assets	993,219	173,121	1,166,340
Net assets (deficit)-beginning of year	45,635	444,852	490,487
Net assets (deficit)-end of year	1,038,854	617,973	1,656,827

See accompanying notes to financial statements.

2008		
Unrestricted	Temporarily Restricted	Total
1,507,566	229,610	1,737,176
916,015	-	916,015
2,423,581	229,610	2,653,191
37,594	(37,594)	-
62,491	-	62,491
518,958	-	518,958
907,462	-	907,462
37,594	-	37,594
78,820	-	78,820
1,605,325	-	1,605,325
855,850	192,016	1,047,866
(810,215)	252,836	(557,379)
45,635	444,852	490,487

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Rent income	2,537,641	1,737,176
Investment income	191,303	916,015
Interest paid on bonds	(903,562)	(910,500)
Maintenance expense	(56,489)	(37,594)
Bank fees	(1,032)	(78,820)
Net cash provided by operating activities	1,767,861	1,626,277
Cash flows from investing activities:		
Capital expenditures (including capitalized interest)	(18,256,904)	(11,474,499)
Net sale (purchase) of investments	-	-
Net cash (used) by investing activities	(18,256,904)	(11,474,499)
Cash flows from financing activities:		
Proceeds from bond issuance	-	49,512,485
Repayment of bonds payable	(300,000)	(270,000)
Net cash provided (used) by financing activities	(300,000)	49,242,485
Net increase (decrease) in cash and cash equivalents	(16,789,043)	39,394,263
Cash and cash equivalents-beginning of year	41,949,014	2,554,751
Cash and cash equivalents-end of year	25,159,971	41,949,014
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	1,166,340	1,047,866
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	86,463	62,491
Depreciation of property, plant, and equipment	518,958	518,958
(Decrease) in accrued interest payable	(3,900)	(3,038)
Net cash provided by operating activities	1,767,861	1,626,277

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 26, 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 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. Therefore, no provision for income taxes has been made in the financial statements. The Corporation elected in fiscal year ended June 30, 2009 to defer until fiscal year ended June 30, 2010 the provisions of **FASB Interpretation 48**, *"Accounting for Uncertainties in Income Taxes."* It has not adopted any uncertain tax positions with respect to those amounts reported in its fiscal years ended June 30, 2009 and 2008 financial statements.

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.

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.

Reclassifications
Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

2. **Cash and Cash Equivalents**
Cash and cash equivalents consist of money market funds collateralized by U.S. Treasury securities in the amount of $25,159,971 at June 30, 2009 and $41,949,014 at June 30, 2008. 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 $54,222 and $36,148 for the years ended June 30, 2009 and 2008, respectively.

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, to include 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.

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 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.

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 $4,174,243 for the year ended June 30, 2009. This amount represents interest expense on the bonds from issuance date (September 26, 2007) to the date of the financial statements.

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, 2009 and 2008, property, plant and equipment are comprised of the following:

	2009	2008
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
Total	19,898,363	19,898,363
Less-accumulated depreciation	(2,374,843)	(1,855,885)
Net property, plant, and equipment	17,523,520	18,042,478

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, 2009 and 2008:

	2009	2008
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.	1,965,000	2,265,000
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
	21,025,000	21,325,000
Less-original issue discount	(349,111)	(363,657)
Total Phase I bonds payable	20,675,889	20,961,343

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, 2009 and 2008.

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

The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2009 are as follows:

2010	1,224,918
2011	1,244,775
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	7,411,676
2032-2034	4,446,425
	35,349,037
Less-interest	(14,324,037)
Outstanding principal-Phase I	21,025,000

	2009	2008
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.	8,505,000	8,505,000
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.	43,165,000	43,165,000
	51,670,000	51,670,000
Less-original issue discount	(501,353)	(519,048)
Total Phase II bonds payable	51,168,647	51,150,952

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 and \$11,797 for the years ended June 30, 2009 and 2008, respectively.

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

The annual debt service requirements to maturity, including principal and interest, for Phase II bonds payable as of June 30, 2009 are as follows:

2010	2,841,800
2011	2,891,000
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
	95,548,950
Less-interest	(43,878,950)
Outstanding principal-Phase II	51,670,000

Payments of scheduled principal and interest on the bonds, when due, are 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.

8. **Reserved Cash**
The Board of Supervisors for the University of Louisiana System (the "Board") 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 (the "Facilities") 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, 2009 and 2008 was $617,973 and $444,852, respectively.

HEARD
McELROY
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LLP
CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET
15TH FLOOR
SHREVEPORT, LA 71101
318 429-1525
318 429-2070 FAX
POST OFFICE BOX 1607
SHREVEPORT, LA
71165-1607

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OF COUNSEL
GILBERT R. SHANLEY, JR., CPA
C. CODY WHITE, JR., CPA, APC
RON W. STEWART, CPA, APC

August 4, 2009

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, 2009 and 2008 and have issued our report thereon dated August 4, 2009. 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 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. Our consideration of the internal control over financial reporting included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

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

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We did not identify any deficiencies in internal control that might be significant deficiencies or material weaknesses.

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, LLP

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated August 4, 2009. 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, 2009 resulted in an unqualified opinion.

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Innovative Student Facilities, Inc.

2. No reportable conditions relating to the audit of the basic financial statements are reported.

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

4. Innovative Student Facilities, Inc. was not subject to a Federal Single Audit for the year ended June 30, 2009.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs

Not applicable.

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2009

No prior year findings or questioned costs were reported for the year ended June 30, 2008..

See accompanying notes to financial statements.