INNOVATIVE STUDENT FACILITIES, INC.

(Audited Financial Statements and Other Information)

RUSTON, LOUISIANA

JUNE 30, 2013 AND 2012

INNOVATIVE STUDENT FACILITIES, INC.

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, MCELROY, & VESTAL
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August 12, 2013

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, 2013 and 2012, 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, 2013 and 2012, 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 August 12, 2013 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, 2013 AND 2012

ASSETS	2013	2012
Cash and cash equivalents (Notes 2 and 9)	27,016,594	7,761,179
Prepaid bond cost (Note 3)	1,495,701	1,373,634
Deferred Loss on bond refinancing (Note 6)	190,600	-
Construction in progress (Note 4)	-	-
Property, plant, and equipment, net of accumulated depreciation (Note 5)	69,896,178	71,241,872
Total assets	98,599,073	80,376,685
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	30,228	-
Accrued interest payable	994,963	1,008,719
Due to bond trustee (Note 6)	19,710,600	-
Bonds payable, net of discount (Note 6)	68,607,059	69,211,259
Total liabilities	89,342,850	70,219,978
Net assets:		
Unrestricted:		
Undesignated	7,486,844	8,937,399
Temporarily restricted (Note 9)	1,769,379	1,219,308
Total net assets	9,256,223	10,156,707
Total liabilities and net assets	98,599,073	80,376,685

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Rent income	4,260,473	751,630	5,012,103
Investment income	429	-	429
Total revenue	4,260,902	751,630	5,012,532
Net assets released from restrictions	201,559	(201,559)	-
Expenses:			
Amortization of bond discount (Notes 3 and 6)	86,463	-	86,463
Write-off of 2003 series original issue discount (Note 6)	290,927	-	290,927
Write off of underwriter's discount	142,987	-	142,987
Depreciation expense	2,057,746	-	2,057,746
Interest expense	3,133,325	-	3,133,325
Maintenance expense	201,559	-	201,559
Bank fees	9	-	9
Total expenses	5,913,016	-	5,913,016
Change in net assets	(1,450,555)	550,071	(900,484)
Net assets-beginning of year	8,937,399	1,219,308	10,156,707
Net assets-end of year	7,486,844	1,769,379	9,256,223

See accompanying notes to financial statements.

2012		
Unrestricted	Temporarily Restricted	Total
4,214,888	751,630	4,966,518
777	-	777
4,215,665	751,630	4,967,295
179,093	(179,093)	-
86,463	-	86,463
-	-	-
-	-	-
623,065	-	623,065
867,187	-	867,187
179,093	-	179,093
28	-	28
1,755,836	-	1,755,836
2,638,922	572,537	3,211,459
6,298,477	646,771	6,945,248
8,937,399	1,219,308	10,156,707

INNOVATIVE STUDENT FACILITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Rent income	5,012,103	4,966,518
Investment income	429	777
Interest paid on bonds	(3,133,325)	(867,187)
Maintenance expense	(201,559)	(179,093)
Bank fees	(9)	(28)
Net cash provided by operating activities	1,677,639	3,920,987
Cash flows from investing activities:		
Capital expenditures (including capitalized interest)	(723,913)	(8,359,499)
Increase in prepaid bond cost	(147,956)	-
Net cash (used) by investing activities	(871,869)	(8,359,499)
Cash flows from financing activities:		
Repayment of bonds payable	(1,110,000)	(1,000,000)
Issuance of refinancing bonds	19,065,000	-
Net premium on bond issuance, net	494,645	-
Net cash provided (used) by financing activities	18,449,645	(1,000,000)
Net increase (decrease) in cash and cash equivalents	19,255,415	(5,438,512)
Cash and cash equivalents-beginning of year	7,761,179	13,199,691
Cash and cash equivalents-end of year	27,016,594	7,761,179
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	(900,484)	3,211,459
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	2,057,746	623,065
Write off of 2003 original issue discount	290,927	-
Write off of underwriter's discount	142,987	-
Net cash provided by operating activities	1,677,639	3,920,987
Supplemental Cash Flow Information:		
Interest paid (net of capitalized interest of $-0- and $2,306,000, respectively)	3,147,082	879,381

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 $27,016,594 at June 30, 2013 and $7,761,178 at June 30, 2012. 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. Prepaid Bond Costs

The Series 2007 and Series 2013 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. Amortization expense related to the prepaid bond cost recorded in the statement of activities totaled $54,222 for the years ended June 30, 2013 and 2012.

4. Construction in Progress

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 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 was transferred to property and equipment upon completion of construction (May 15, 2013). Capitalized interest costs included in construction in progress totaled $2,306,600 for the year ended June 30, 2012. Total interest expense on the bonds capitalized since issuance date (September 26, 2007) to the date of the financial statements is $11,163,243.

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, 2013 and 2012, property, plant and equipment are comprised of the following:

	2013	2012
Land	3,051,774	3,051,774
Land improvements	117,700	117,700
Buildings	56,293,299	56,293,299
Furniture, fixtures, and equipment	969,748	969,748
Recreational facilities	13,688,500	12,976,449
Track and tennis facilities	1,868,726	1,868,726
	75,989,747	75,277,696
Less-accumulated depreciation	(6,093,569)	(4,035,824)
Net property, plant, and equipment	69,896,178	71,241,872

Depreciation of $2,057,746 and $623,065 was recorded for the years ended June 30, 2013 and 2012.

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 both Phase I and Phase II, respectively, bonds payable at June 30, 2013 and 2012:

Phase I Bond Issue (2003 Issue):	2013	2012
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.	-	885,000

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

	2013	2012
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
	-	19,945,000
Less-original issue discount	-	(305,473)
Total Phase I bonds payable	-	19,639,527

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, 2013 and 2012.

Interest expense for the years ended June 30, 2013 and 2012 was $853,375 and $867,187, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2013 and 2012 was $-0-.

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:

Phase I Bond Refunding Issue (2013 Issue):	2013	2012
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2013 Serial Bonds, interest rates ranging from 3.00% to 4.00%, principal payments begin July 1, 2013, final maturity July 1, 2030.	15,865,000	-
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2013 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.	3,200,000	-
	19,065,000	-
Plus-original issue premium	637,632	-
Total Phase I Refunding bonds payable	19,702,632	-

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

The 2013 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, 2013. This premium is being amortized over the life of the bonds on the straight-line basis. Amortization of the premium into income will commence July 1, 2013.

The annual debt service requirements to maturity, including principal and interest, for the refunding bonds payable as of June 30, 2013 are as follows:

2014	1,188,058
2015	1,208,669
2016	1,236,044
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	3,411,500
	27,170,004
Less-interest	(8,105,004)
Outstanding principal-Phase I	19,065,000

Interest expense for the years ended June 30, 2013 and 2012 was $-0- and $-0-, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2013 and 2012 was $-0-.

	2013	2012
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.	6,170,000	6,855,000
Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds, Series 2007 Term Bonds, $4,460,000 bearing interest at 5.25%		

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

	2013	2012
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
	49,335,000	50,020,000
Less-original issue discount	(430,573)	(448,268)
Total Phase II bonds payable	48,904,427	49,571,732

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, 2013 and 2012.

The annual debt service requirements to maturity, including principal and interest, for Phase II bonds payable as of June 30, 2013 are as follows:

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
	83,921,650
Less-interest	(34,586,650)
Outstanding principal-Phase II	49,335,000

Interest expense for the years ended June 30, 2013 and 2012 was $2,279,950 and $-0-, respectively. Interest capitalized related to this bond issue for the years ended June 30, 2013 and 2012 was $-0- and $2,306,600, 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

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 2009 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, 2013 and 2012 was $1,812,622 and $1,260,608, respectively.

10. Subsequent Events

The Corporation has evaluated subsequent events through August 12, 2013, 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

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August 12, 2013

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*

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, 2013, 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 August 12, 2013.

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.

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, 2013

We have audited the financial statements of Innovative Student Facilities, Inc. as of and for the year ended June 30, 2013, and have issued our report thereon dated August 12, 2013. 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, 2013 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 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.

b. Federal Awards – Innovative Student Facilities, Inc. was not subject to a federal single audit for the year ended June 30, 2013.

Section II - Financial Statement Findings

No **current year** findings or questioned costs were reported for the year ended June 30, 2013.

See accompanying notes to financial statements.

INNOVATIVE STUDENT FACILITIES, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

No **prior year** findings or questioned costs were reported for the year ended June 30, 2012.

See accompanying notes to financial statements.