EDISON STATE COLLEGE FINANCING CORPORATION

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

MARCH 31, 2012

EDISON STATE COLLEGE FINANCING CORPORATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Edison State College Financing Corporation
Fort Myers, Florida

We have audited the accompanying basic financial statements of the Edison State College Financing Corporation (the "Financing Corporation"), a direct support organization and component unit of Edison State College, as of and for the year ended March 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Financing Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing 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 audit provides 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 the Edison State College Financing Corporation as of March 31, 2012, and the changes in its financial position and its cash flows for the year 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 our report dated July 6, 2012, on our consideration of the Financing Corporation's internal control over financial reporting and our tests of its compliance of 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 considered in assessing the results of our audit.

Board of Directors
Edison State College Financing Corporation
Fort Myers, Florida

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
July 6, 2012

EDISON STATE COLLEGE FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis.

This section of the Edison State College Financing Corporation (the "Financing Corporation") annual financial report presents a discussion and analysis of the financial performance of the Financing Corporation for the year ended March 31, 2012. The emphasis of discussions about these statements will be on current year activities, resulting change, and current known facts. The discussion should be read in conjunction with the basic financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the Financing Corporation's management.

The annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." The Financing Corporation is considered a Business Type Activity under the provisions and reporting model of GASB Statements No. 34 and No. 35.

Financial Highlights

On December 1, 2010, the Edison State College Financing Corporation entered into a Financing Agreement with the Lee County Industrial Development Authority to issue a $26,300,000 Industrial Development Revenue Bond for the construction of an approximately 400 bed dormitory. On December 21, 2010, the Financing Corporation closed on the Bond purchased by Branch Banking & Trust Company (BB&T) as a tax-exempt Bank Qualified Loan (BQ). The BQ provides for the repayment of principal and related interest through December 1, 2040. The BQ will bear interest at a rate computed as the sum of (a) 68 percent of one-month London Interbank Offered Rate (LIBOR) and (b) 65 percent of 1.85 percent per annum, as adjusted monthly with changes in one-month LIBOR. On December 23, 2010, the Financing Corporation, as the counterparty, entered into an interest rate swap agreement (Swap) with BB&T for the purpose of hedging its variable interest rate risk on the tax-exempt loan. The Swap provides that the Financing Corporation, pay an annual fixed rate of 3.66 percent effective July 1, 2012, and terminating December 17, 2017. The term and notional amount of the Swap will not exceed the term and principal amount of the tax-exempt loan.

On April 3, 2008, the College's Board approved Policy 6Hx6:1.07 which allows the transfer of "legally available auxiliary enterprise funds" to the Edison State College Financing Corporation in order to operate or administer contracts for the College's auxiliary enterprises on behalf of the College. Legally available funds is defined as all funds that are not; a) derived from tuition revenues; b) appropriated for designated purposes; c) pledged to secure obligations of the College, or if pledged, are in excess of amounts necessary to pay such obligations in the current fiscal year or, d) otherwise legally or contractually restricted as to use. As such, during the years ended March 31, 2012 and 2011, the College contributed (transferred) $187,360 and $765,190, respectively, to the Financing Corporation from its available auxiliary enterprise funds for future use by the Financing Corporation toward its designated corporate mission.

Financial Highlights (continued)

On November 16, 2007, Edison State College (the "College") entered into an agreement with Clearwire, Inc. to lease the College's excess capacity on its license to operate an Education Broadband Service ("EBS"). Edison State College holds a license issued by the Federal Communications Commission to operate Educational Broadband Service Stations in areas surrounding its campuses.

Clearwire, Inc. is in the business of operating, aggregating and/or managing broadband services and hence has agreed to pay royalties to the College for its excess capacity. A total of $271,200 and $271,200 was received from Clearwire, Inc. for the years ended March 31, 2012 and 2011, respectively. All revenues earned by the College from this agreement have been contributed to the Financing Corporation, as approved by the College's District Board of Trustees.

The Financing Corporation maintains an agreement with the College to collect lease revenues from the Edison Collegiate High Schools (the "Charter Schools") located on the Lee and Charlotte campuses of Edison State College. The Charter Schools are a component unit of Edison State College. The Financing Corporation records the revenue from this lease agreement as capital contributions from auxiliary operations of the College. A total of $235,259 and $160,116 was recognized as capital contributions from the Charter Schools for the period ended March 31, 2012 and 2011, respectively. See Note G for additional information.

Balance Sheet

The Balance Sheet reflects the assets and liabilities of the Financing Corporation using the accrual basis of accounting, and presents the financial position of the Financing Corporation at a specified time. Net assets, the difference between total assets and total liabilities, are one indicator of the Financing Corporation's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the Financing Corporation's financial condition.

Balance Sheet (continued)

The following table presents a condensed summary of the Financing Corporation's balance sheet as of the dates shown.

Statement of Net Assets

	March 31, 2012	March 31, 2011
Assets:		
Current and other assets	$ 9,611,479	$ 7,097,039
Capital assets	16,219,822	2,071,906
Total Assets	$ 25,831,301	$ 9,168,945
Liabilities		
Current Liabilities	$ 2,661,130	$ 525,363
Noncurrent Liabilities	16,734,883	2,359,014
Total Liabilities	19,396,013	2,884,377
Net Assets		
Invested in Plant, Net of Related Debt	(545,910)	522,652
Unrestricted	6,981,198	5,761,916
Total Net Assets	6,435,288	6,284,568
Total Liabilities and Net Assets	$ 25,831,301	$ 9,168,945
Increase in Net Assets	$ 150,720	2%

At March 31, 2012, the assets of the Financing Corporation totaled $25,831,301 primarily due to the capital contributions received from the College and activities related to the construction of the dormitory. The balance in net assets for the Financing Corporation is determined by subtracting total liabilities from total assets. At March 31, 2012, the liabilities of the Financing Corporation totaled $19,396,013 including accounts payable related to construction activity and amounts due to the Industrial Development Revenue Bond and related Swap agreement issued for the construction of a 400 bed dormitory. Net assets totaled $6,435,288 and consisted primarily of unrestricted net assets of $6,981,198 as of March 31, 2012.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the Financing Corporation's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the Statement is to show the operating and nonoperating revenues received by the Financing Corporation, the operating and nonoperating expenses paid by the Financing Corporation and any other revenues, expenses, gains and losses received or spent by the Financing Corporation.

Revenues and expenses of the Financing Corporation for the respective periods ended are shown in the table below.

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended	
	March 31, 2012	March 31, 2011
Total Operating Revenues	$ -	$ -
Total Non-Operating Revenues, net	152,479	103,949
Total Revenues	152,479	103,949
Total Operating Expenses	695,578	210,190
Total Non-Operating Expenses	-	948
Total Expenses	695,578	211,138
Income Before Capital Contributions	(543,099)	(107,189)
Capital Contributions	693,819	1,196,506
Increase in Net Assets	150,720	1,089,317
Net Assets, Beginning of Year	6,284,568	5,195,251
Net Assets, End of Year	$ 6,435,288	$ 6,284,568

Capital contributions totaled $693,819 for the year ended March 31, 2012, and consisted of contributions received from the College, which were revenues derived from its auxiliary operations, the EBS royalties and the charter school leases. Operating expenses totaled $695,578 for the year ended March 31, 2012.

Capital Assets

The Financing Corporation's capital asset activity for the year ended March 31, 2012 is shown in the table below.

	March 31, 2011	Increases	Decreases	March 31, 2012
Nondepreciable Capital Assets:				
Construction in Progress	$ 2,071,906	$ 14,027,226	$ -	$ 16,099,132
Depreciable Capital Assets:				
Computer Equipment	-	21,997	-	21,997
Office Equipment	-	7,949	-	7,949
Furniture	-	90,744	-	90,744
Total Depreciable Assets	-	120,690	-	120,690
Total Capital Assets	$ 2,071,906	$ 14,147,916	$ -	$ 16,219,822

In December 2010, the Financing Corporation entered into an agreement with a general contractor to design and construct a residential hall for students attending Edison State College. The total estimated amount of the project is $26,300,000. The project was still in progress at March 31, 2012, and none of the assets have been placed into service. Accordingly, no depreciation expense has been recorded.

Debt Administration

The following schedule details the Financing Corporation's long-term debt for the respective years presented below.

	Year Ended	
	March 31, 2012	March 31, 2011
Bonds Payable	$ 14,822,926	$ 2,177,702
Interest Rate Swap Derivative	2,045,346	181,312
Total Long-Term Debt	$ 16,868,272	$ 2,359,014

Statement of Cash Flows

The Statement of Cash Flows provides information about the Financing Corporation's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Financing Corporation's ability to generate net cash flows, its ability to meets its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the Financing Corporation. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows for the investing activities show the net source and use of cash as related to purchasing or selling investments and earning income on those investments.

The major sources of funds reported in the Financing Corporation's Statement of Cash Flows include capital contributions received of $694,779 from the College, which were revenues derived from its auxiliary operations and the EBS lease, and proceeds from the Financing Corporation's capital debt of $12,645,224.

The major outlays of funds used in the Financing Corporation's Statement of Cash Flows include the purchase of long term investment securities of $475,412 through its investment advisor, FineMark National Bank and Trust, and the construction of the Financing Corporation's dormitory.

The Financing Corporation's overall cash position increased during the year ended March 31, 2012, with a total of cash and equivalents of $802,892, comprised primarily of the bond proceeds from capital debt, capital contributions, received from the College, and the interest earned on those funds, less cash used in operating, purchase of capital assets, and investing activities.

Factors Impacting Future Periods

The Financing Corporation expects to continue to incur additional long-term debt as funds are drawn from the bank qualified loan for the construction of the 400 bed dormitory. Upon completion of the facility the Financing Corporation expects to begin to receive a revenue stream from entering into dormitory residential leases with qualified students. The facility is expected to be completed in fiscal year 2013. The Financing Corporation's outlook for the future continues to be positive.

EDISON STATE COLLEGE FINANCING CORPORATION
BALANCE SHEET
MARCH 31, 2012

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 580,445
Receivable - Edison State College	159,156
Total current assets	739,601
NONCURRENT ASSETS	
Investments	6,295,771
Restricted Cash and Cash Equivalents	222,447
Deferred Outflow of Resources	2,045,346
Bond Issuance Costs, Net	308,314
Construction in Progress	16,099,132
Capital Assets, Net	120,690
Total noncurrent assets	25,091,700
TOTAL ASSETS	$ 25,831,301
LIABILITIES AND NET ASSETS	
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	$ 1,675,581
Retainage Payable	852,160
Bonds Payable - Current	133,389
Total current liabilities	2,661,130
NONCURRENT LIABILITIES	
Derivative Instrument - Interest Rate Swap	2,045,346
Bonds Payable - Noncurrent	14,689,537
Total noncurrent liabilities	16,734,883
TOTAL LIABILITIES	19,396,013
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(545,910)
Unrestricted	6,981,198
TOTAL NET ASSETS	6,435,288
TOTAL LIABILITIES AND NET ASSETS	$ 25,831,301

EDISON STATE COLLEGE FINANCING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2012

OPERATING REVENUES	$ -
OPERATING EXPENSES	
College Support	21,818
General and Administrative	291,822
Supplies and Materials	381,938
TOTAL OPERATING EXPENSES	695,578
OPERATING LOSS	(695,578)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	166,568
Net Realized and Unrealized Loss on Investments	(14,089)
NET NON-OPERATING REVENUES (EXPENSES)	152,479
LOSS BEFORE CAPITAL CONTRIBUTIONS	(543,099)
CAPITAL CONTRIBUTIONS	
Edison State College - Auxiliary Enterprise Funds	187,360
Edison State College - EBS royalties	271,200
Edison State College - Charter School Lease	235,259
TOTAL CAPITAL CONTRIBUTIONS	693,819
INCREASE IN NET ASSETS	150,720
NET ASSETS, BEGINNING OF YEAR	6,284,568
NET ASSETS, END OF YEAR	$ 6,435,288

EDISON STATE COLLEGE FINANCING CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Paid to Suppliers for Goods and Services	$ (684,854)
NET CASH USED IN OPERATING ACTIVITIES	(684,854)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	12,645,224
Contributions from Edison State College	694,779
Purchases of Capital Assets	(12,050,682)
Interest Paid on Capital Debt	(94,856)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	1,194,465
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	166,568
Purchases of Securities for Long-Term Investment	(475,412)
NET CASH USED BY INVESTING ACTIVITIES	(308,844)
Increase in Cash and Equivalents	200,767
CASH AND EQUIVALENTS, BEGINNING OF YEAR	602,125
CASH AND EQUIVALENTS, END OF YEAR	$ 802,892
SUPPLEMENTAL DISCLOSURE	
Noncash Investing Activity - Change in Fair Value of Investments	$ (14,089)

EDISON STATE COLLEGE FINANCING CORPORATION
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating Loss	$	(695,578)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Amortization Expense		10,724
NET CASH USED IN OPERARTING ACTIVITIES	$	(684,854)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization and Activities

On November 27, 2007, the Edison College District Board of Trustees approved the creation of the Edison College Financing Corporation (the "Financing Corporation"). The Financing Corporation was incorporated as a not-for-profit organization under the laws of the State of Florida on November 28, 2007. On March 31, 2010, the Financing Corporation changed its corporate name to Edison State College Financing Corporation, consistent with the name change of the College.

The Financing Corporation is a direct support organization and a component unit of Edison State College (the "College"), as defined by State of Florida Auditor General Rule 10.700 and Florida Statute 1004.70. It is governed by its own independent District Board of Directors and is organized to; a) provide housing opportunities for the students of the College; b) to finance capital projects to meet current and future needs of the College, such as student housing, parking facilities, and/or other improvements; c) manage and invest funds held by it; d) operate or administer contracts for auxiliary enterprise and e) any other proper activity of the College. The Financing Corporation has no component units. Therefore, no component units are reported as part of the Financing Corporation.

The governing body of the Financing Corporation is its Board of Directors (the "Board"). The Board is comprised of at least five (5) but not more than seven (7) directors. The Financing Corporation is managed, supervised and controlled by its Board subject to applicable law and the powers and duties reserved to the District Board of Trustees and the President of the College.

The Financing Corporation's District offices are located on the Lee County campus of the College in Fort Myers, Florida.

Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in the preparation of these basic financial statements.

Basis of Accounting

Basis of accounting refers to when the effect of transactions or events should be recognized for financial reporting purposes. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of the Financing Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Balance Sheet is presented in a classified format to distinguish between current and long-term assets and liabilities. The Statement of Revenues, Expenses, and Changes in Net Assets is presented by major sources. The Statement of Cash Flows is presented using the direct method and is in compliance with GASB Statement No. 9 "Reporting Cash Flow for Proprietary and Non-expendable Trust Funds." The Financing Corporation follows FASB Statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. Pursuant to GASB Statement No. 20 “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Funds Accounting”, the Corporation has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Financial statement presentation

The Financing Corporation follows Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and local Governments," GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis - for Public Colleges and Universities," GASB Statement No. 37, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34, " and GASB Statements No. 38, "Certain Financial Statements Note Disclosures."

GASB Statements No. 34 and No. 35 established standards for external financial reporting which includes a Balance Sheet, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows using the direct method. GASB Statements No. 34 and 35 also include a requirement that management provide a discussion and analysis of the basic financial statements and it requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are further defined as follows:

- Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted - consist of assets that have constraints placed upon their use through external sources imposed either by creditors (such as through debt covenants) or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by liabilities to be paid from these assets.
- Unrestricted - consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Financing Corporation also adheres to the recommendations of the National Association of College and University Business Officers (NACUBO). NACUBO's recommendations are consistent with generally accepted accounting principles promulgated by the GASB. The Financing Corporation qualifies as a special-purpose government entity engaged only in business-type activities (BTA), as defined in GASB Statement No. 34. GASB Statements 34 provides that special-purpose governments engaged only in business-type activities should report the following:

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation, (continued)

-Management's discussion and analysis (MD&A)
-Proprietary (enterprise) fund financial statements
1 Balance Sheet
2 Statement of Revenues, Expenses and Changes in Net Assets
3 Statement of Cash Flows
-Notes to financial statements

Since the Financing Corporation is not required to adopt a legal budget, a budget-versus-actual statement is not presented as part of these financial statements.

Cash and Cash Equivalents

The Financing Corporation considers highly liquid, short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Capital Assets

The Financing Corporation's capital assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Financing Corporation has a capitalization threshold of $5,000 for tangible personal property and $25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Other Structures and Improvements	10 years
Furniture, Machinery, and Equipment:	
Computer Equipment	3 years
Vehicles & Office Machines	5 years
Furniture	7 years

Interest expense is capitalized on assets constructed with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project construction with interest earned on invested proceeds over the same period. Accordingly, interest expense of $94,856 has been capitalized into construction in progress for the year ended March 31, 2012.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

On August 15, 2011, the Financing Corporation's Board of Directors approved an updated investment policy which defines the fiduciary responsibility of the Financing Corporation's investment advisor and establishes asset uses and the acceptable level of risk on investments. An investment advisor was employed by the Financing Corporation during the year ended March 31, 2010. The adopted policy permits investments in low to low-moderate risk investment vehicles. Investments are reported at fair market value. Realized and unrealized gains and losses are reflected in the Statement of Revenue, Expenses and Changes in Net Assets.

Income Taxes

No provision for income tax expense has been made in the accompanying financial statements since the Financing Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Financing Corporation is organized exclusively for educational purposes and although it has not been classified as an organization that is a private foundation under Section 509(a)(2), it has been classified as a corporation under section 509(a)(3).

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, 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.

Receivables

Receivables consist of amounts due from the College for lease revenues from Charter Schools that have been assigned to the Financing Corporation. Such amounts are considered fully collectible by management.

NOTE B – CASH AND CASH EQUIVALENTS

The Financing Corporation's policy allows deposits to be held in demand deposit and money market accounts as well as other low to low-moderate risk investment vehicles.

Cash and cash equivalents (deposits) consist of the following at March 31, 2012:

Unrestricted		Carrying Amount
Unrestricted		
Public Funds Bank Account	$	274,334
U.S. Government Money Market Mutual Fund		306,111
Restricted for Debt Service		
Public Funds Bank Account		222,447
	$	802,892

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, deposits will be forfeited. The Financing Corporation does not have a deposit policy for custodial credit risk. The Financing Corporation has experienced no custodial credit risk losses.

The Financing Corporation's accounts are categorized as follows:

		Bank Balance
Unrestricted		
Amount covered by Federal Depository Insurance or collateralized pursuant to Florida Statute 280	$	274,334
Amount uncollateralized		306,111
Total Unrestricted		580,445
Restricted for Debt Service		
Amount covered by Federal Depository Insurance or collateralized pursuant to Florida Statute 280		222,447
	$	802,892

Custodial credit risk

The Financing Corporation maintains its Public Funds Bank Accounts in Qualified Public Depositories as required by Section, 280.17, F.S. These assets are fully insured through a combination of up to $250,000 per financial institution through Federal Deposit Insurance Corporation (FDIC) or collateral pursuant to Chapter 280, Florida Statutes, Security for Public Deposits. Florida Statute 280.17 requires that public funds be fully collateralized.

NOTE B – CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk (Continued)

The Money Market Mutual Fund account is not insured through either the FDIC or Chapter 280. Investments in these money market mutual funds are not categorized as to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form.

Credit risk

The Financing Corporation's policy requires limiting investments to the safest types of securities and diversifying the investment portfolio so that potential losses on individual securities will be minimized. The Financing Corporation's investment in the Money Market Mutual Fund is rated AAA at March 31, 2012.

NOTE C - INVESTMENTS

The Financing Corporation's policy limits investments to U.S. Treasuries, government agencies, and corporate bonds. Investment policy objectives suggest a strategy of intermediate taxable fixed income with a duration of 2 to 3 years determined first by liquidity requirements of the Financing Corporation and then by yield curve opportunities available in the market. All investments must be rated AA or better with the further provision that no purchases will be made if a bond is rated below AA by any of the three rating agencies. The maximum exposure to AA rated bonds will be 25% of the portfolio's market.

If a bond should fall below an AA rating by any of the three rating services after being purchased the advisors must present a recommendation to the Treasurer of the Financing Corporation to either hold or sell the security based upon their independent research while maintaining an overall average quality for the portfolio of AAA or better. The policy prescribes a maximum final maturity of 3.5 years for any single issue.

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Financing Corporation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The Financing Corporation utilizes the services of investment managers, FineMark National Bank and Trust, for its Investments. The investments held by the investment manager are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Financing Corporation's name.

NOTE C – INVESTMENTS (CONTINUED)

Interest Rate Risk

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Financing Corporation has established a target for the duration of its fixed income portfolio to be between 2 and 3 years.

As of March 31, 2012, the maturities of the Financing Corporation's fixed income Investments of $6,295,771 were available by percentage of its portfolio and are as follows:

Investment Maturities	Percentage of Portfolio
Less than 1 year	0.0%
1-3 yrs	100.0%

All funds classified as Investments are recorded at market value, as listed on March 31, 2012. As of March 31, 2012, the maturities of investments by type were as follows:

Investment Type	Market Value	Investment maturities Less than 1 Yr.	2-3 Years
U.S. Treasuries and Federal Agencies	$ 5,693,691	$ -	$ 5,693,691
Corporate Bonds	602,080	-	602,080
Totals	$ 6,295,771	$ -	$ 6,295,771

Credit Risk

It is the Financing Corporation's policy that the fixed income portfolio must be rated at AA or higher rating by any of the three rating services. At March 31, 2012, the Financing Corporation's fixed income investments were rated as follows:

Ratings	% of Portfolio
AAA	69.2%
AA	27.7%
NR	3.1%
	100.0%

NOTE C – INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Financing Corporation's policy limits investments to U.S. Treasuries, government agencies, and corporate bonds. The maximum exposure to AA rated bonds is 25% of the portfolio's market value. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not have purchase limitations.

Management of the Financing Corporation believes the concentration of credit risk with respect to its investments is mitigated by investing through the use of a national investment manager in U.S. Treasuries, government agencies, highly rated corporate bonds, and widely traded mutual funds.

NOTE D – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended March 31, 2012:

	Balance March 31, 2011	Increases	Decreases	Balance March 31, 2012
Nondepreciable Capital Assets:				
Construction in Progress	$ 2,071,906	$ 14,027,226	$ -	$ 16,099,132
Depreciable Capital Assets:				
Computer Equipment	-	21,997	-	21,997
Office Equipment	-	7,949	-	7,949
Furniture	-	90,744	-	90,744
Total Depreciable Assets	-	120,690	-	120,690
Total Capital Assets	$ 2,071,906	$ 14,147,916	$ -	$ 16,219,822

As of March 31, 2012, the Financing Corporation was still in the process of constructing the Living Learning Center, therefore no assets have been placed into service. Accordingly, the Financing Corporation has not recorded any depreciation expense in the financial statements.

NOTE E – LONG TERM LIABILITIES

The following is a summary of the bonds payable activity for the period ended March 31, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable Series 2010	$ 2,177,702	$ 12,645,224	$ -	$ 14,822,926	$ 133,389

Bonds Payable

On December 1, 2010, the Financing Corporation entered into a Financing Agreement with the Lee County Industrial Development Authority to issue a $26,300,000 Industrial Development Revenue Bond for the construction of a 400 bed dormitory. On December 21, 2010, the Financing Corporation closed on the Bond purchased by Branch Banking & Trust Company (BB&T) as a tax-exempt Bank Qualified Loan (BQ). The BQ provides for the repayment of principal and related interest through December 1, 2040. The BQ will bear interest at a rate computed as the sum of (a) 68 percent of one-month London Interbank Offered Rate (LIBOR) and (b) 65 percent of 1.85 percent per annum, as adjusted monthly with changes in one-month LIBOR. The rate as of March 31, 2012 was 1.366%.

The BQ provides for draws as construction commences. As of March 31, 2012, the Financing Corporation had drawn $14,822,926.

The following is a schedule of future debt service requirements assuming the total amount of the loan is drawn:

Year Ending	Principal	Interest	Total
2013	$ 133,389	$ 591,061	$ 724,450
2014	543,377	959,158	1,502,535
2015	563,830	938,705	1,502,535
2016	585,053	917,482	1,502,535
2017	604,534	898,001	1,502,535
2018-2022	3,392,963	4,119,713	7,512,676
2023-2027	4,081,701	3,430,974	7,512,675
2028-2032	4,910,274	2,602,401	7,512,675
2033-2037	5,906,381	1,606,295	7,512,676
2038-2041	5,578,498	431,644	6,010,142
	$ 26,300,000	$ 16,495,434	$ 42,795,434

NOTE E – LONG TERM LIABILITIES (CONTINUED)

Future tenant revenues collected after completion of the construction of the housing complex are pledged first to be used for debt service. There were no rental revenues collected during 2012.

The Financing Corporation was required to deposit into a separate account an amount to be used for payment of interest on the Series 2010 bonds through the construction period. The amount required is recognized in the financial statements as restricted cash. At March 31, 2012, there was $222,447 in restricted cash available for future debt service requirements.

NOTE F – INTEREST RATE SWAP

On December 23, 2010, the Financing Corporation, as the counterparty, entered into an interest rate swap agreement (Swap) with BB&T for the purpose of hedging its variable interest rate risk on the tax-exempt loan. The Swap provides that the Financing Corporation, pay an annual fixed rate of 3.66 percent effective July 1, 2012, and terminating December 17, 2017. The term and notional amount of the Swap will not exceed the term and principal amount of the tax-exempt loan.

The swap agreement has been determined to be an effective hedge. As such, the change in fair value is reported as a deferred outflow, a noncurrent asset reported on the balance sheet. The fair value balances and notional amounts of derivative instruments outstanding at March 31, 2012, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are presented below.

	Changes in Fair Value		Fair Value at March 31, 2012		
Business Type Activities	Classification	Amount	Classification	Amount	Notional
Cash Flow Hedges:					
Pay-fixed interest rate swap	Deferred Outflow	$ (2,045,346)	Deferred Outflow	$ (2,045,346)	$ 26,300,000

Credit Risk

The Financing Corporation is exposed to credit risk on the Swap only when its fair value is positive. At March 31, 2012, the Swap had a negative fair value and the maximum amount of loss due to credit risk is zero.

Interest Rate Risk

On its only hedge, a pay-fixed and receive variable interest rate Swap, as LIBOR decreases, the Financing Corporation's net payment on the Swap increases.

Termination Risk

The Financing Corporation or its counterparty may terminate the swap agreement if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the Financing Corporation would be liable to the counterparty for a payment equal to the liability.

NOTE F – INTEREST RATE SWAP (CONTINUED)

Rollover Risk

The Financing Corporation is exposed to rollover risk on this hedging instrument as it is a debt hedge that matures or may be terminated prior to the maturity of the hedged debt. When this instrument terminates the Financing Corporation will be re-exposed to the risks being hedged by the instrument.

NOTE G – LEASE AGREEMENT

On August 1, 2010, the Financing Corporation entered into a Master Lease Agreement with the College for the properties occupied by the Charter Schools in both the Charlotte and Lee Campuses. The College leases the respective properties on its campuses to the Financing Corporation for a rental fee of $1.00 per annum. The property covered by the Master Lease Agreement thereon is leased back to the College to manage and operate. The Financing Corporation records the revenue from this lease agreement as capital contributions from auxiliary operations of the College. At March 31, 2012, the Financing Corporation recorded a receivable of $159,156 due from the College for the lease of these facilities.

NOTE H – RELATED PARTY TRANSACTIONS

Capital contributions totaling $693,819 were received from the College during the year ended March 31, 2012 and consisted of funds assigned to the Financing Corporation from College auxiliary operations, from two (2) contracts for Educational Broadband Services (EBS) excess capacity use and royalties and from two charter school building leases. The assigned funds totaled $187,360 from the College's auxiliary operations, $271,200 from EBS royalties and $235,259 from the charter school leases.

Financing Corporation personnel are employed by the College. The Financing Corporation paid the College $40,000 to reimburse the College for the estimated salaries and related payroll taxes and benefits of its staff assigned to the Financing Corporation.

NOTE I – ECONOMIC DEPENDENCE

The Financing Corporation is dependent upon the College to contribute resources until the Financing Corporation completes construction of its facilities and begins rental/leasing operations and/or use of those facilities. Loss of these funds and/or large decreases in these types of funding would have a material effect on the Financing Corporation and a negative impact on overall operations.

NOTE J – COMMITMENT

In December 2010, the Financing Corporation entered into an agreement with a general contractor to design and construct a 405 bed residential hall for students attending Edison State College. The total amount of the project is $26,300,000. As of March 31, 2012, there was approximately $9,000,000 outstanding on this project.

NOTE K – SUBSEQUENT EVENT

In May 2012, the Financing Corporation returned $540,000 in unrestricted auxiliary enterprise funds to the College. These funds represent revenues from the EBS broadband lease that has been assigned to the Financing Corporation by the College Board of Trustees. The fund transfer and payment were approved by both the College Board of Trustees and the Financing Corporation's Board of Directors.

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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*

Board of Directors
Edison State College Financing Corporation
Fort Myers, Florida

We have audited the accompanying financial statements of Edison State College Financing Corporation (the "Financing Corporation") as of and for the year ended March 31, 2012, and have issued our report thereon dated July 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Financing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Financing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Financing 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 Financing Corporation's financial statements will not be prevented, or detected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Board of Directors
Edison State College Financing Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financing Corporation's 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 and use of the Board of Directors, management of the Financing Corporation and the Auditor General of the State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
July 6, 2012