Edison State Community College

Financial Statements for the Years Ended June 30, 2004 and 2003 and Single Audit Reports for the Year Ended June 30, 2004

Auditor of State
Betty Montgomery

Board of Trustees
Edison State Community College
1973 Edison Dr.
Piqua, OH 45356

We have reviewed the Independent Auditor's Report of the Edison State Community College, Miami County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Edison State Community College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 16, 2004

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
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EDISON STATE COMMUNITY COLLEGE

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EDISON STATE COMMUNITY COLLEGE

BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL
AS OF JUNE 30, 2004

College Administration

Dr. Kenneth A. Yowell	President
Mr. Philip C. Lootens	Acting Vice President, Academic/Student Affairs
Mr. Keith E. Kamerer	Executive Director, Business/Personnel Services
Mr. Dennis Myers	Vice President for Information Technology
Mr. Darrel Isaacs	Controller
Ms. Lisa Ori	Director, Student Financial Aid

Insurance

All employees were insured with Willis of Ohio for $500,000. The effective date of the policy is April 1, 2004 to April 1, 2005.

Legal Counsel

Mr. Stanley R. Evans
100 South Main Avenue
Suite 102, Courtview Center
Sidney, Ohio 45365

The Office of Attorney General, Jim Petro

College Location

1973 Edison Drive
Piqua, Ohio 45356

Deloitte & Touche LLP
1700 Courthouse Plaza Northeast
Dayton, Ohio 45402-1788

Tel: (937) 223-8821
Fax: (937) 223-8583
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Edison State Community College and
Betty Montgomery, Auditor of the State of Ohio

We have audited the accompanying consolidated statements of net assets of Edison State Community College (the "College"), a component unit of the State of Ohio, as of June 30, 2004 and 2003, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Edison State Community College at June 30, 2004 and 2003, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, in fiscal year 2004, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Management's Discussion and Analysis on pages 2 – 10 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2004, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Edison State Community College taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages 25 – 26, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule is the responsibility of the College's management. Such additional information has been subjected to the auditing procedures applied in our audit of the 2004 basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

November 8, 2004

EDISON COMMUNITY COLLEGE

MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2004 AND 2003

The discussion and analysis of Edison Community College's ("College") financial statements provides an overview of the College's financial activities for the years ended June 30, 2004 and 2003. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with College management.

Using This Report

In June 1999, the Governmental Accounting Standards Board ("GASB") released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* This Statement requires a comprehensive look at the entity as a whole and presents a long-term view of the entity's finances. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities, which applies these standards to public colleges and universities.*

The standards were adopted by the College in fiscal year 2002 and require three basic financial statements: the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above-referred format, notes to financial statements and supplemental information.

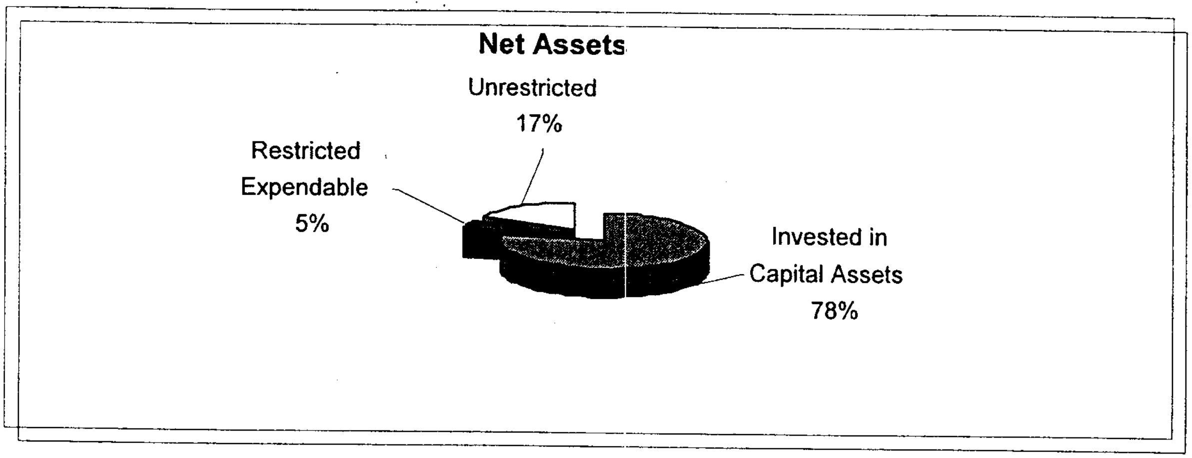
These statements include all assets and liabilities under the accrual basis of accounting, which is the same as the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken in account regardless of when the cash is received or paid.

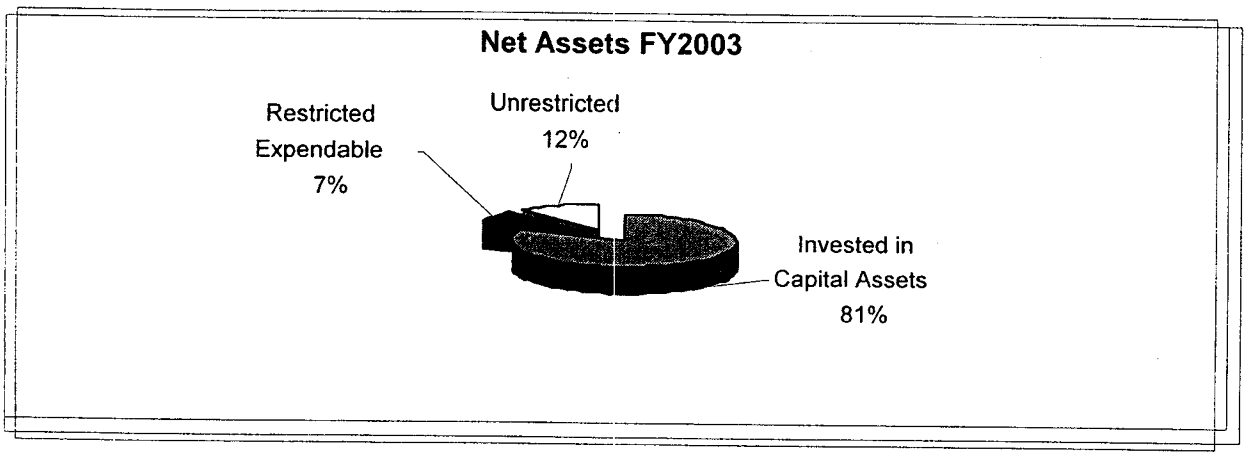
Financial Highlights

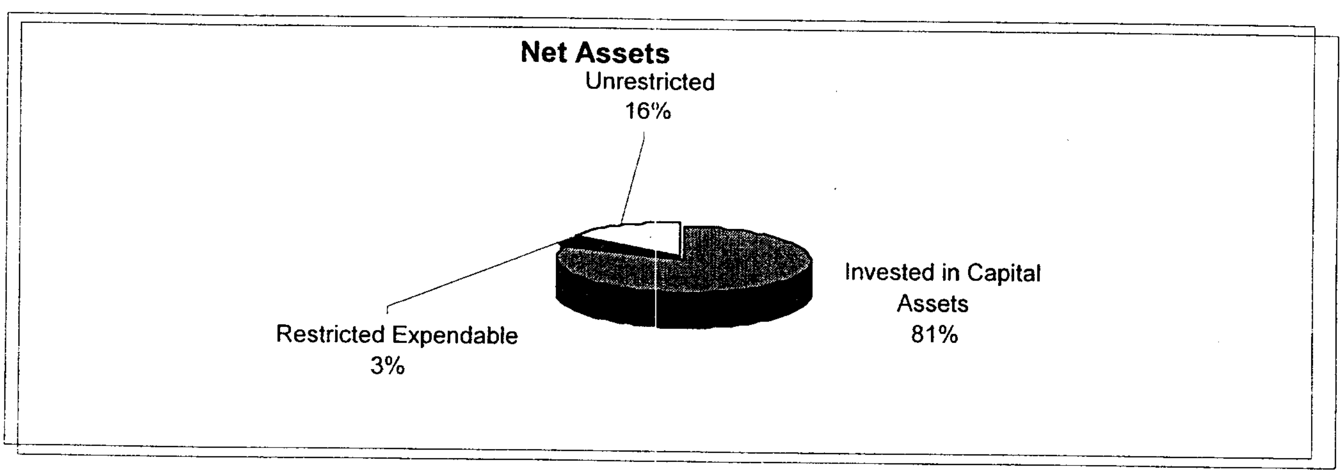
- In the fiscal year ended June 30, 2004, the College's expenses exceeded revenues and other support, creating a decrease in net assets of $239,098, however, during the past fiscal year, the cash position of the College increased $106,324.

- The decrease in the net assets is attributable to unrestricted resources being committed to technological initiatives to better position the College for future demands. These initiatives involve both automated solutions and the related infrastructure needed to support these endeavors. Also the recognition of depreciation on all capital assets has reduced net assets.

- The following charts provide a graphical breakdown of net assets by category for the fiscal years ended June 30, 2004, 2003 and 2002.







The College has committed the unrestricted net assets to provide for identified future needs. These needs include contractual obligations, debt service, capital outlay, insurance reserves and academic programming needs. More detailed information regarding the commitments against unrestricted net assets is presented in the footnotes to the financial statements.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the College's finances is whether the College as a whole is better off or worse off as a result of the year's activities. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend and quality of applicants, class size, student retention, strength of faculty, condition of the buildings and the safety of campus, to assess the overall health of the College. In spite of continued cutbacks in state appropriations, the College's financial position remained strong at June 30, 2004.

Following is a summary of the major components of net assets and operating results of the College as of and for the years ended June 30, 2004, 2003 and 2002:

	June 30		
	2004	**2003**	**2002**
Current assets	$ 5,722,825	$ 4,890,046	$ 4,823,547
Non-current assets:			
Capital assets, net	11,452,699	12,046,917	12,922,590
Other	689,724	765,867	760,660
Total assets	$17,865,248	$17,702,830	$18,506,797
Current liabilities	$ 3,385,978	$ 2,927,266	$ 2,713,830
Noncurrent liabilities	681,430	738,626	783,887
Net assets:			
Invested in capital assets - net of related debt	10,847,727	11,373,270	12,184,001
Restricted	709,559	1,002,818	491,191
Unrestricted	2,240,554	1,660,850	2,333,888
Total net assets	13,797,840	14,036,938	15,009,080
Total liabilities and net assets	$17,865,248	$17,702,830	$18,506,797

	Years Ended June 30		
	2004	2003	2002
OPERATING REVENUES:			
Student tuition and fees	$4,245,536	$ 4,482,958	$ 4,122,300
Federal grant and contracts	2,552,632	2,078,026	1,578,773
State and local grants and contracts	140,242	240,556	244,109
Auxiliary enterprises-bookstore	1,067,627	1,114,200	1,177,097
Other operating revenues	223,794	223,210	414,049
Total operating revenues	8,229,831	8,138,950	7,536,328
OPERATING EXPENSES:			
Educational and general:			
Instruction	5,800,048	6,268,911	5,786,794
Public service	738,097	918,734	850,520
Academic support	367,461	332,499	330,168
Student services	1,593,061	1,609,140	1,522,893
Institutional support	3,251,246	2,946,876	3,197,179
Plant operations and maintenance	1,266,048	1,245,746	1,116,034
Depreciation	891,500	929,057	931,937
Student aid	542,088	436,683	245,444
Auxiliary enterprises-bookstore	825,363	855,821	1,048,740
Total operating expenses	15,274,912	15,543,467	15,029,709
Operating loss	(7,045,081)	(7,404,517)	(7,493,381)
NONOPERATING REVENUES (EXPENSES) AND OTHER REVENUES:			
State appropriations	6,070,492	6,021,986	5,908,052
Interest expense	(36,431)	(43,830)	(44,234)
Other	119,550	146,265	438,101
Capital grants	408,070	307,954	307,954
Capital appropriations	244,302	-	-
Total nonoperating and other revenues (expenses)	6,805,983	6,432,375	6,609,873
DECREASE IN NET ASSETS	$ (239,098)	$ (972,142)	$ (883,508)

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for service.

The following factors significantly impacted fiscal year 2004 operating revenue:

- Student tuition and fees revenue increased as a result of the Board of Trustees raising the rates by 6.0%. In addition, the fall 2003 enrollment increased by 5% over the prior year.

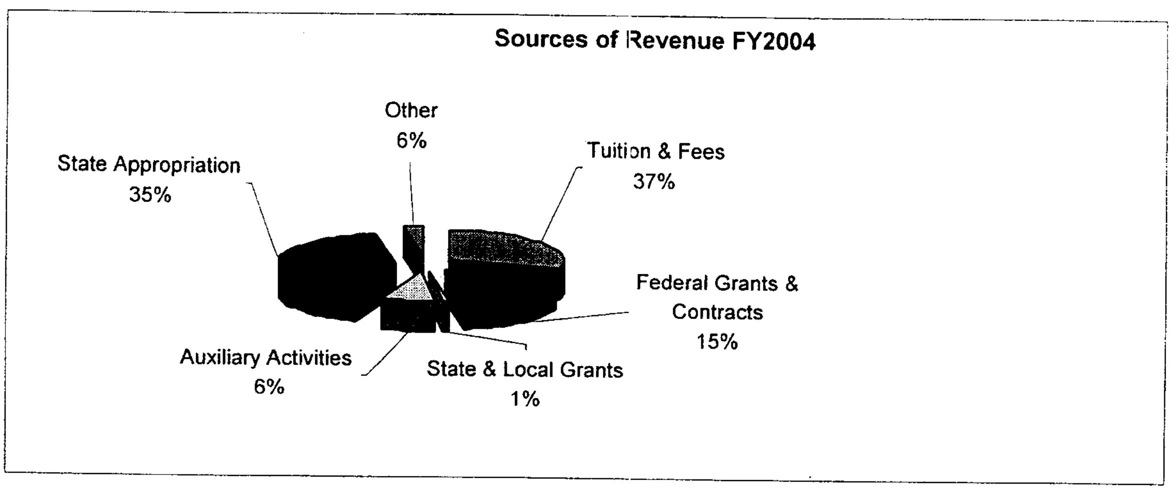
- Grant revenue increased approximately 16.1% or $374,292.

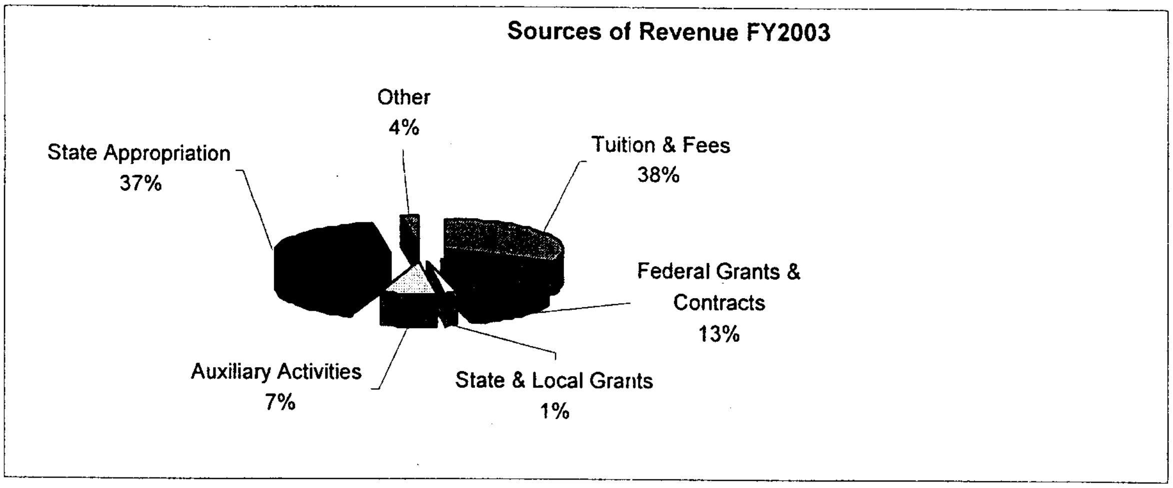
The following factors significantly impacted fiscal year 2003 operating revenue:

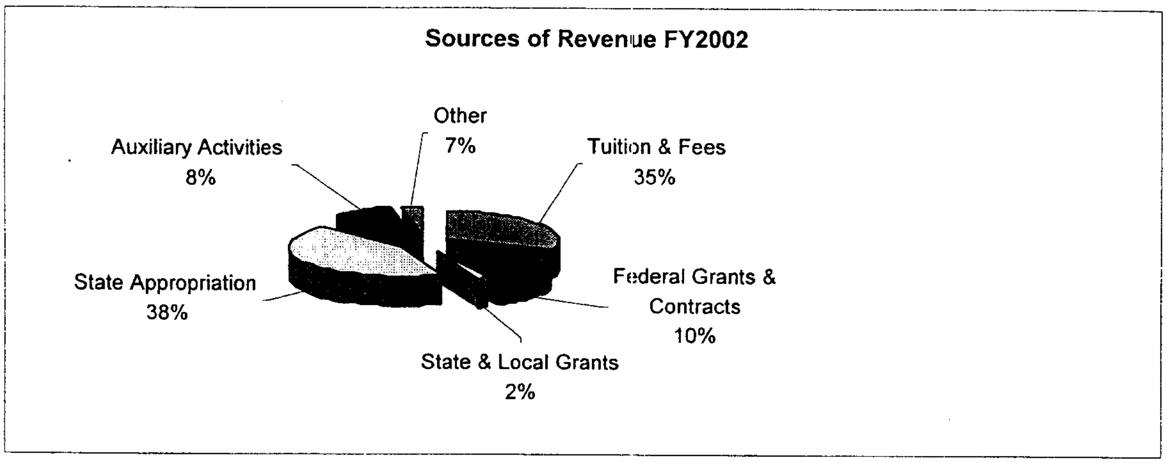
- Student tuition and fees revenue increased as a result of the Board of Trustees raising the rates by 6.0%. In addition, the fall 2002 enrollment increased by 5% over the prior year.

- Grant revenue increased approximately 27.2 % or $495,700.

The following is a graphic illustration of total revenues by source:

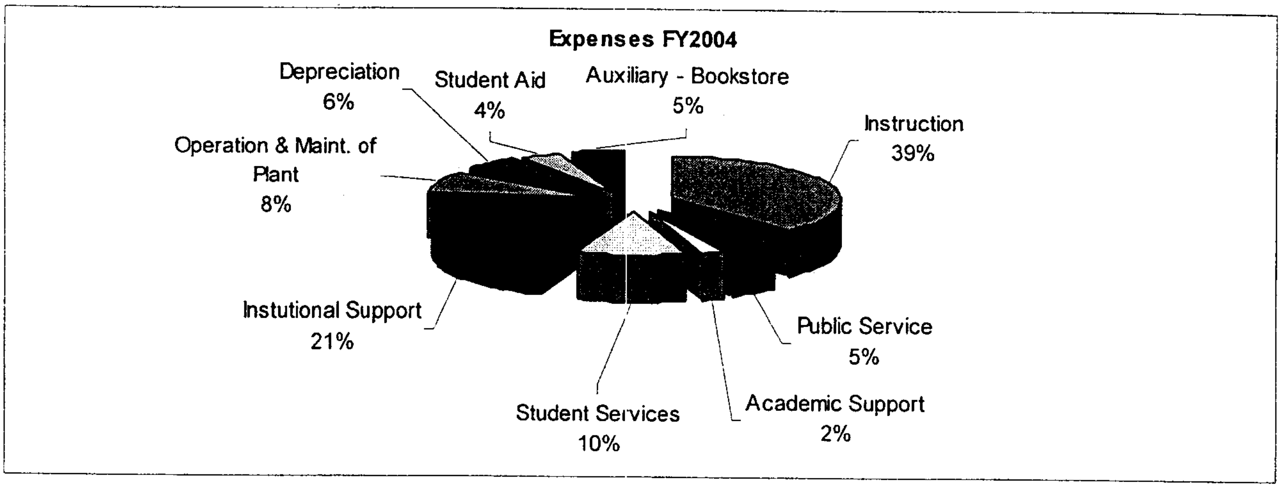


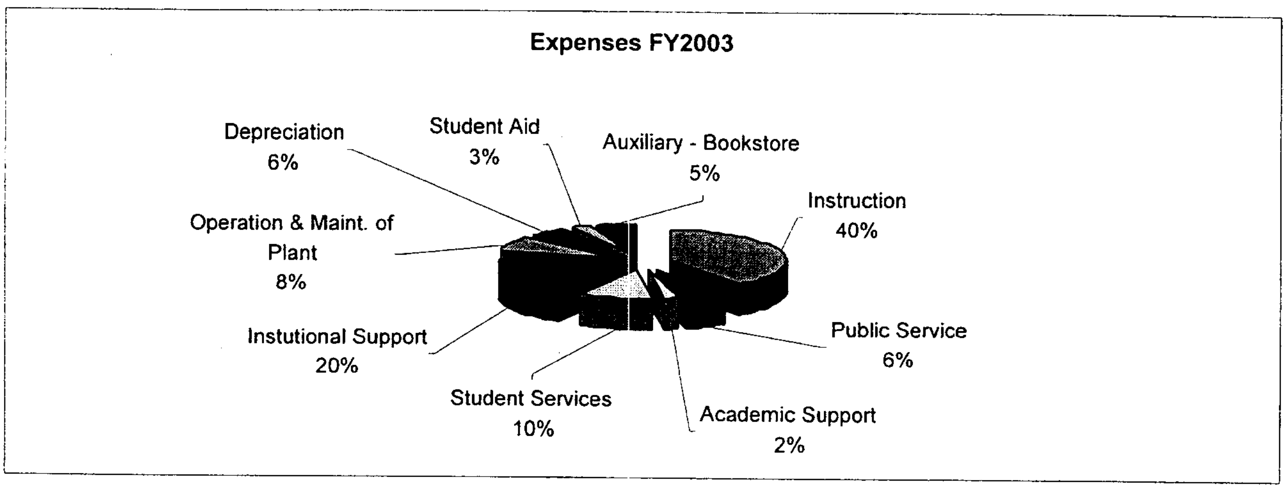

Sources of Revenue FY2003
Other
4%
Tuition & Fees
38%
State Appropriation
37%
Federal Grants &
Contracts
13%
Auxiliary Activities
7%
State & Local Grants
1%

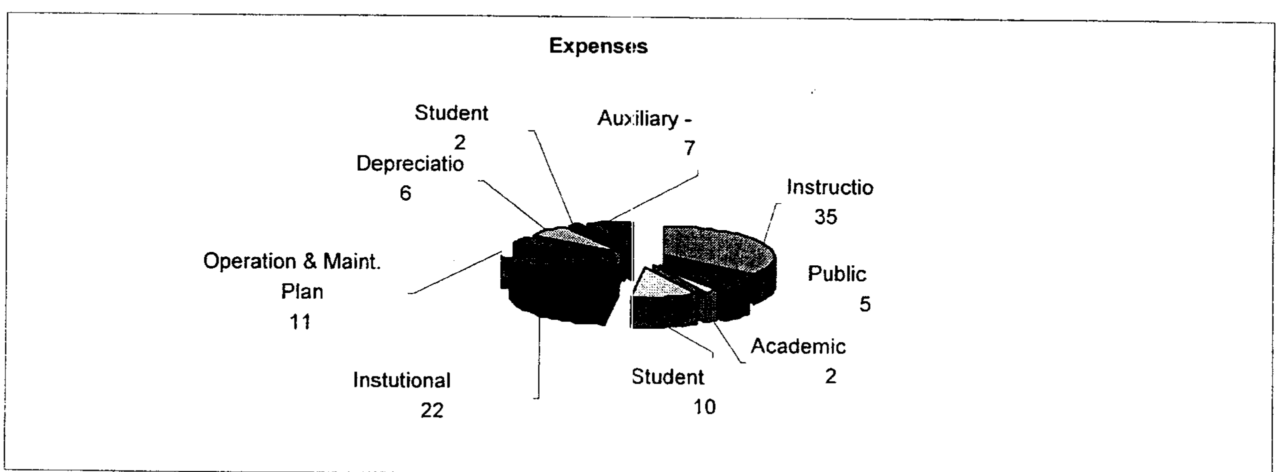

Sources of Revenue FY2002
Other
7%
Auxiliary Activities
8%
Tuition & Fees
35%
State Appropriation
38%
Federal Grants &
Contracts
10%
State & Local Grants
2%

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and functions of the College.







Non-Operating and Other Revenues

Non-operating revenues are all revenue sources that are primarily non-exchange in nature. They would consist primarily of state appropriations.

Fiscal year 2004 non-operating and other revenue was significantly impacted by the following factor:

- The total state appropriation increased 0.8 % from prior year, or $48,506 resulting from continuing state funding challenges and restrictions.

Fiscal year 2003 non-operating and other revenue was significantly impacted by the following factor:

- The total state appropriation increased 1.9 % from prior year, or $113,934 resulting from continuing state funding challenges and restrictions.

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the entity during a period. The Statement of Cash Flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its needs for external financing.

Cash Flows for the Years Ended June 30, 2004, 2003 and 2002

	2004	2003	2002
Cash provided by (used in):			
Operating activities	$ (6,323,354)	$ (6,156,675)	$ (6,528,336)
Noncapital financing activities	6,101,001	6,072,149	5,908,052
Capital and related financing activities	249,984	145,798	187,293
Investing activities	78,693	19,916	446,037
Net increase in cash and cash equivalents	106,324	81,188	13,046
Cash and cash equivalents—Beginning of year	933,162	851,974	838,928
Cash and cash equivalents—End of year	$ 1,039,486	$ 933,162	$ 851,974

Capital Assets

At June 30, 2004, the College has some $11.5 invested in capital assets, net of accumulated depreciation of $8.6 million. Depreciation charges totaled approximately $0.9 million for the current and prior two fiscal years. The net book value of capital assets at June 30, 2004, 2003 and 2002 is as follows:

	June 30		
	2004	2003	2002
Land, land improvements	$ 826,121	$ 839,236	$ 852,351
Buildings and improvements	4,756,374	4,702,840	4,905,954
Student conference center	4,740,366	4,891,234	5,059,015
Equipment	667,144	850,813	1,037,357
Vehicles	10,079	8,437	11,812
Library books	452,615	754,357	1,056,101
Total	$ 11,452,699	$ 12,046,917	$ 12,922,590

Long-Term Debt

The College currently has a bond payable which consists of a 5.75% series 2001 Revenue Bond due December 2010. The College did not issue any new debt in fiscal year 2004. Scheduled debt payments were made on the 2001 bond. For more detailed information on current outstanding debt, see Footnote 5 to the financial statements.

Economic Factors And Next Years' Budget

The most significant economic issue for the College and other higher education institutions has been the prolonged downturn in the state of Ohio's economy and revenue collections, which has resulted in overall cutbacks in state appropriations for higher education for fiscal years 2002, 2003 and 2004. Since state appropriations represent the largest revenue source for the College, a 6% tuition increase was implemented effective for 2004 fall semester. In addition, the College has taken measures to further control costs. The College will continue to be a low cost affordable education for the residents of Darke, Miami and Shelby counties.

For fiscal year 2005, the College is anticipating additional growth in student enrollment. This will likely exert further cost pressures relative to maintaining adequate staffing, space, and support services. Also causing concern is our escalating increases in health care costs.

EDISON STATE COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

ASSETS	College 2004	College 2003	College Related Foundation 2004	College Related Foundation 2003
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,039,486	$ 933,162	$ -	$ -
Investments	977,932	964,150		
Accounts and pledges receivable—net	3,405,588	2,696,319	53,529	84,998
Prepaid expenses and other	95,509	85,270	15,321	25,160
Inventories	204,310	211,145	-	-
Total current assets	5,722,825	4,890,046	68,850	110,158
NONCURRENT ASSETS:				
Accounts and pledges receivable—net			155,267	
Restricted cash deposits			139,802	94,282
Gifts				
Investments	689,724	765,867	1,947,968	1,551,609
Capital assets—net	11,452,699	12,046,917	-	-
Total noncurrent assets	12,142,423	12,812,784	2,243,037	1,645,891
Total assets	$ 17,865,248	$ 17,702,830	$ 2,311,887	$ 1,756,049
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accruals	$ 84,109	$ 114,417	$ 145,638	$ 18,103
Accrued salaries, wages and benefits	500,950	638,500		
Deferred student fee income	2,728,294	2,105,673		
Bonds payable—current portion	72,625	68,676	-	-
Total current liabilities	3,385,978	2,927,266	145,638	18,103
NONCURRENT LIABILITIES:				
Accrued salaries, wages and benefits	149,083	133,655		
Bonds payable	532,347	604,971	-	-
Total liabilities	4,067,408	3,665,892	145,638	18,103
NET ASSETS:				
Invested in capital assets—net of related debt	10,847,727	11,373,270		
Restricted—expendable	675,800	913,526	1,154,460	899,189
Restricted—nonexpendable	9,685	89,292	59,752	52,412
Unrestricted	2,264,628	1,660,850	952,037	786,345
Total net assets	13,797,840	14,036,938	2,166,249	1,737,946
Total liabilities and net assets	$ 17,865,248	$ 17,702,830	$ 2,311,887	$ 1,756,049

The accompanying notes are an integral part of the financial statements.

EDISON STATE COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	College	College	College Related Foundation	College Related Foundation
REVENUES	**2004**	**2003**	**2004**	**2003**
Operating revenues:				
Student tuition and fees	$ 6,346,127	$ 6,198,845	$ -	$ -
Less grants and scholarships	(2,100,591)	(1,715,887)	-	-
Student tuition and fees, net of grants and scholarships	4,245,536	4,482,958	-	-
Federal grants and contracts	2,552,632	2,078,026		
State and local grants and contracts	140,242	240,556		
Auxiliary enterprises - bookstore net of grants and scholarships of $346,986 and $234,844 in 2004 and 2003, respectively	1,067,627	1,114,200		
Gifts			358,643	193,672
Other operating revenues	223,794	223,210	-	-
Total operating revenues	8,229,831	8,138,950	358,643	193,672
EXPENSES				
Operating expenses:				
Education and general:				
Instruction	5,800,048	6,268,911		
Public service	738,097	918,734		
Academic support	367,461	332,499		
Student services	1,593,061	1,609,140		
Institutional support	3,251,246	2,946,876	308,392	145,343
Plant operations and maintenance	1,266,048	1,245,746		
Depreciation	891,500	929,057		
Student aid	542,088	436,683		
Auxiliary enterprises	825,363	855,821	-	-
Total operating expenses	15,274,912	15,543,467	308,392	145,343
Operating income (loss)	(7,045,081)	(7,404,517)	50,251	48,329
Nonoperating revenues (expenses):				
State appropriations	6,070,492	6,021,986		
Gifts, including $104,483 and $ 103,000 from Foundation for 2004 and 2003 respectively	104,483	103,000	245,704	
Investment income—net of expense	15,067	43,265	236,831	75,535
Interest expense	(36,431)	(43,830)		
Payments to College	-	-	(104,483)	(103,000)
Total nonoperating revenues (expenses)	6,153,611	6,124,421	378,052	(27,465)
Income (loss) before other revenues, expenses, gains or losses	(891,470)	(1,280,096)	428,303	20,864
Other revenues:				
Capital grants	408,070	307,954		
Capital appropriations	244,302	-	-	-
Total other revenues	652,372	307,954	-	-
INCREASE (DECREASE) IN NET ASSETS	(239,098)	(972,142)	428,303	20,864
NET ASSETS:				
Beginning of year	14,036,938	15,009,080	1,737,946	1,717,082
End of year	$ 13,797,840	$ 14,036,938	$ 2,166,249	$ 1,737,946

The accompanying notes are an integral part of the financial statements.

EDISON STATE COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 3,639,659	$ 4,371,795
Grants and contracts	2,695,126	2,327,452
Payments to vendors and employees	(13,905,955)	(14,292,544)
Auxiliary enterprise	1,067,627	1,114,200
Other receipts	180,189	322,422
Net cash used in operating activities	(6,323,354)	(6,156,675)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State appropriations	6,070,492	6,021,986
Gifts	30,509	50,163
Net cash provided by non-capital financing activities	6,101,001	6,072,149
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants	408,070	307,954
Purchases of capital assets	(52,980)	(53,384)
Interest paid on outstanding debt	(36,431)	(43,830)
Principal paid on outstanding debt	(68,675)	(64,942)
Net cash provided by capital and related financing activities	249,984	145,798
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	1,250,000	1,250,000
Purchase of investments	(1,187,640)	(1,274,614)
Interest on investments	16,333	44,530
Net cash provided by investing activities	78,693	19,916
NET INCREASE IN CASH AND CASH EQUIVALENTS	106,324	81,188
CASH AND CASH EQUIVALENTS:		
Beginning of year	933,162	851,974
End of year	$ 1,039,486	$ 933,162
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES—Operating loss	(7,045,081)	(7,404,517)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation	891,500	929,057
Changes in assets and liabilities:		
Accounts receivable, net	(636,560)	81,621
Inventories	6,835	4,065
Prepaid expenses and other	(10,239)	(18)
Accounts payable and accruals	(30,308)	(20,250)
Accrued salaries, wages and benefits	(122,122)	21,643
Deferred student fee income	622,621	231,724
Net cash used in operating activities	$(6,323,354)	$(6,156,675)
NON-CASH TRANSACTION—Capital appropriation	$ 244,302	$ -

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Description of Entity—Edison State Community College (the "College") was chartered in 1973 under provisions of the Ohio Revised Code as the first State General and Technical College in Ohio. The College thus emerged without special local taxation as a two-year, public, co-educational, state-supported institution of higher learning. The College is exempt from federal income taxes pursuant to provisions of Section 115 of the Internal Revenue Code. Under its charter, the College is authorized to offer studies in the Arts and Sciences, Technical Education and Adult Technical Education. The College, which is a component unit of the State of Ohio, is governed by a nine-member Board of Trustees. These members are appointed by the Governor of the State of Ohio.

Accrual Accounting—The accompanying financial statements have been prepared on the full accrual basis of accounting, whereby revenue is recognized in the period earned, or in the case of advances from other governments, when all eligibility requirements are met in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Expenditures are recognized when the related liabilities are incurred.

Financial Statements—The College reports as "business type activities," as defined by GASB Statement No 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with GASB Statement No. 35, the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows are reported on a consolidated basis.

Pursuant to GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* the College follows GASB guidance as applicable to its business-type activities, and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Effective July 1, 2003 the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This Statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary institution. The provisions of this Statement are effective for financial statements for the fiscal year ended June 30, 2004. At this time, the College has determined that by definition the Edison Foundation, Inc. is a component unit of the College. The financial activity of the Edison Foundation, Inc. is included through a discrete presentation as part of the College's financial statements.

Net Asset Classifications—In accordance with GASB Statement No. 35 guidelines, the College's resources are classified into the following three net asset categories:

Invested in Capital Assets—capitalized physical assets, net of accumulated depreciation.

Restricted – Expendable—net assets related to grants and contracts activity, whose use is subject to externally-imposed restrictions.

Restricted – Non-expendable—net assets represent endowment contributions from donors that are permanently restricted as to principal.

Unrestricted—net assets that are not subject to externally imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees. Substantially all of the College's unrestricted net assets are designated for future uses or contingences.

Operating Versus Non-operating Revenues and Expenses—The College defines operating activities as reported on the Statement of Revenues, Expenses and Changes in Net Assets as those that generally result from exchange transactions such as payments received for providing goods or services and payments made for goods or services received. All of the College's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as non-operating revenues as required by GASB Statement No. 35, including state appropriations, county tax levy receipts, investment income, and state capital grants.

Cash and Cash Equivalents can include cash, certificates of deposit, and money market funds, stated at cost which approximates fair value.

Deferred Student Fee Income consists of the unearned portion of student tuition and fees for the summer session, and all of the recorded student tuition and fees resulting from early registration for the fall session.

Capital Assets are recorded at cost or, if acquired by gift, at fair value at the date of the gift. When capital assets are sold or otherwise disposed of, the net carrying value of such assets is removed from the accounts and the Invested in Capital Assets—net of related debt component of Net Assets is adjusted as appropriate. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated useful lives:

Buildings and improvements	10-40 years
Equipment and fixtures	3-20 years
Library materials	5 years

The College's capitalization limit for equipment, furniture and fixtures and library materials is $5,000.

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method.

Grants and Scholarships—Student tuition and fees and bookstore revenues are presented net of grants and scholarships applied directly to student accounts. Grants and scholarships consist primarily of awards to students from the Federal Pell Grant Program and the Ohio Instructional Grant Program. Payments made directly to students from grants and scholarships are presented as student aid.

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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement amends GASB Statement No. 3. The new statement requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate and investment maturity, interest rate sensitivity and foreign exchange exposure. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. The College is planning to comply with the new disclosure requirements beginning with the fiscal year ending June 30, 2005. The College has determined that this statement will not have a significant impact on the financial statements.

In November, 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires certain disclosures when the value of a capital asset has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2004. The College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to government accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

Compensated Absences—Vested or accumulated vacation leave is recorded as an expenditure and liability of the current funds as the benefits accrue to employees. In accordance with the applicable accounting standards, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for an estimate of the amount of accumulated sick leave benefits that will be paid.

Reclassifications—Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

2. CASH AND INVESTMENTS

In accordance with the State of Ohio's and the College's policy, the College is authorized to invest cash in certificates of deposit, repurchase agreements, United States treasury securities, federal government agency securities backed by the full faith of the government, municipal securities and the State Treasurer's investment pool. The classification of cash and cash equivalents, and investments in the financial statements is based on criteria set forth in GASB Statement No. 3. Cash equivalents are defined to include investments with original maturities of three months or less. The funds in the State Treasurer's investment pool are classified as investments.

Deposits—At June 30, 2004, the carrying amounts of the College's deposits were $1,039,486 (included in cash and cash equivalents in the balance sheet) and the bank balances were $1,391,504. The differences between carrying amounts and bank balances are primarily due to outstanding checks and deposits in transit at June 30, 2004. Of the bank balances, the amounts covered by federal depository insurance or by collateral held by the College's agent in the College's name were $352,527. The remaining balances of $1,038,977 were uninsured and were held in accounts collateralized by a pooled collateral account at the Federal Reserve Bank of Cleveland and by a government security fund in the name of the pledging bank. These arrangements are in compliance with the Ohio Revised Code.

Investments—The College's only investments as of June 30, 2004 were with the State Treasurer's Investment Pool ("STAR Ohio"). The College's deposit is valued at the pool's share price, which is the price the investment could be sold for on June 30, 2004. This investment is not required to be classified into risk categories set forth in GASB Statement No. 3. The College's deposit in STAR Ohio as of June 30, 2004 was $1,667,656.

3. ACCOUNTS RECEIVABLE

Receivables consist of billings for student fees and receivables arising from grants and are summarized as follows:

	2004	2003
Student charges	$ 2,764,414	$ 2,252,983
Post secondary enrollment options program	582,683	474,677
Other	166,769	63,378
Allowance for doubtful accounts	(108,278)	(94,719)
	$ 3,405,588	$ 2,696,319

4. CAPITAL ASSETS

The following is a summary of changes in the capital assets and related accumulated depreciation during the 2004 fiscal year:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Land	$ 688,414	$	$	$ 688,414
Land improvements	532,000			532,000
Buildings and improvements	9,557,580	259,238		9,816,818
Student conference center	6,184,703	18,284		6,202,987
Equipment	2,155,518	13,760		2,169,278
Vehicles	96,900	6,000	(46,900)	56,000
Library books	1,508,716			1,508,716
Total	20,723,831	297,282	(46,900)	20,974,213
Less accumulated depreciation:				
Land improvements	381,178	13,115		394,293
Building and improvements	4,854,740	205,705		5,060,445
Student conference center	1,293,469	169,152		1,462,621
Equipment	1,304,705	197,427		1,502,132
Vehicles	88,463	4,358	(46,900)	45,921
Library books	754,359	301,743		1,056,102
	8,676,914	891,500	(46,900)	9,521,514
Capital assets, net	$ 12,046,917	$ (594,218)	$	$ 11,452,699

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Land	$ 688,414	$	$	$ 688,414
Land improvements	532,000			532,000
Buildings and improvements	9,525,180	32,400		9,557,580
Student conference center	6,184,703			6,184,703
Equipment	2,134,534	20,984		2,155,518
Vehicles	96,900			96,900
Library books	1,508,716			1,508,716
Total	20,670,447	53,384		20,723,831
Less accumulated depreciation:				
Land improvements	368,063	13,115		381,178
Building and improvements	4,619,226	235,514		4,854,740
Student conference center	1,125,688	167,781		1,293,469
Equipment	1,097,177	207,528		1,304,705
Vehicles	85,088	3,375		88,463
Library books	452,615	301,744		754,359
	7,747,857	929,057		8,676,914
Capital assets, net	$ 12,922,590	$ (875,673)	$	$ 12,046,917

5. LONG TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2004 and 2003 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2004					
Compensated absences	$ 416,373	$ 57,578	$ 28,115	$ 445,836	$ 296,752
Bonds payable	673,647		68,675	604,972	72,625
	$ 1,090,020	$ 57,578	$ 96,790	$ 1,050,808	$ 369,377
2003					
Compensated absences	$ 402,998	$ 40,622	$ 27,247	$ 416,373	$ 282,718
Bonds payable	738,589		64,942	673,647	68,676
	$ 1,141,587	$ 40,622	$ 92,189	$ 1,090,020	$ 351,394

Bonds payable consists of a 5.75% Series 2001 Revenue Bond due December 2010, with scheduled maturities as follows:

Year Ended June 30	Principal	Interest	Total
2005	$ 72,625	$ 32,698	$ 105,323
2006	76,801	28,402	105,203
2007	81,217	23,859	105,076
2008	85,887	19,055	104,942
2009	90,824	13,974	104,798
2010-2011	197,618	11,522	209,140
Total	$ 604,972	$ 129,510	$ 734,482

All general receipts from the bookstore are pledged as collateral under the bond payable.

6. STATE SUPPORT

The College is a State-assisted institution of higher education which receives a student-based subsidy determined annually using a formula devised by the Ohio Board of Regents.

In addition to the student subsidies, the State of Ohio provides the funding for construction and renovation of major plant facilities on the College campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission ("OPFC"), which in turn causes the construction and renovation of the facility by the Ohio Board of Regents. Upon completion of a construction project, the Board of Regents turns over control to the College which capitalizes the cost. Renovations are capitalized in the period incurred. During the years ended June 30, 2004 and 2003, there was funding from the State of Ohio to the College for such activities of $244,302 and zero respectively for such activities.

Neither the obligation for the revenue bonds issued by the OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These are currently being funded through appropriations to the Board of Regents by the Ohio General Assembly.

The facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a requirement exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the state.

7. COMMITMENTS

At June 30, 2004, the College is committed to future contractual obligations for capital expenditures of approximately $64,000. This commitment is being funded from approved state appropriations not expended.

8. LEASE AGREEMENT

The College currently has a ten-year lease agreement with Darke County Board of Commissioners for the facilities located in Greenville, OH. The total rental expense under this agreement was $94,914 and $95,894 for the years ended June 30, 2004 and 2003.

At June 30, 2004, minimum lease payments under this lease are as follows:

Year Ended June 30	
2005	$ 94,914
2006	94,914
2007	94,914
2008	94,914
2009	94,914
2010-2011	197,736
Total minimum lease payment	$ 672,306

9. RETIREMENT PLANS

College faculty participate in either the State Teachers Retirement System of Ohio ("STRS") or alternative retirements plan ("ARP"). Substantially, all other employee's participant in either the Ohio Public Employees Retirement System ("OPERS") or the ARP. Both STRS and OPERS are state-wide cost-sharing multi-employer plans. OPERS and STRS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits for STRS and OPERS is provided by state statute by Chapters 3307 and 145, respectively, of the Ohio Revised Code.

The financial statements and supplementary information for OPERS and STRS are made available for public inspection. The reports may be obtained by writing or calling:

OPERS
277 East Town Street
Columbus, OH 43215-4642
(614) 222-6705

STRS
275 East Broad Street
Columbus, OH 43215-3771
(614) 227-4002

OPERS plan members are required to contribute 8.5% of their annual salary, and STRS members contribute 10.0%. The College is required to contribute 13.55% and 14% of annual covered payroll for OPERS and STRS, respectively. The contribution requirements of plan members and the College are established and may be amended by state statute. The College's contributions to OPERS and STRS for the years ended June 30, 2004, 2003 and 2002 were as follows:

	Contribution	
Years	PERS	STRS
2004	$390,546	$537,606
2003	385,917	518,715
2002	372,932	548,641

The contributions made by the College were equal to the required contributions for each year.

Certain full-time College faculty and unclassified staff have the option to choose the ARP in place of STRS or OPERS. The ARP is a defined contribution plan, which provides employees with the opportunity to establish individual retirement accounts with a defined group of investment options, with each participant having control of the assets and investments options associated with those assets. The administrators of the Plan are the providers of the Plan investment options. Authority to establish and amend benefits and contribution requirements for the ARP is provided by state statute per the Ohio Revised Code.

Under the provisions of ARP, the required contribution rates of plan participants are 10.0% and 8.5% of employees' covered compensation for employees who would otherwise participate in STRS and OPERS, respectively. The College contributes 8.00% of a participating faculty member's compensation and 7.31% of a participating unclassified staff member's compensation to the participant's account. The College is also required to contribute an additional 3.5% of employees' covered compensation of STRS. Plan participants' contributions were $44,318 and $43,070, and the College contributions to the Plan providers amounted to $36,987 and $37,530, respectively, for the years ended June 30, 2004 and 2003. In addition, the amounts contributed to STRS by the College on behalf of ARP participants was $11,554 and $10,751 respectively, for the years ended June 30, 2004 and 2003.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

STRS provides other postemployment benefits to all retirees and their dependents, while OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 4.5% of the total 14.0% while the OPERS rate was 4.3% of the total 13.55% for the year ended June 30, 2004.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement health care under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to $2.797 billion as of June 30, 2003. The number of benefit recipients eligible for OPEB was 108,294 for STRS at June 30, 2003. The amount contributed by the College to STRS to fund these benefits was $172,802 for the year ended June 30, 2004.

Postretirement health care under OPERS is advanced-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for OPEB at December 31, 2002 is $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively. The number of OPERS active contributing participants was 364,881 for the year ended December 31, 2003. For the year ended June 30, 2004, the College contributed $123,937 to OPERS for OPEB funding, which is equal to the actuarially required contributions of the Plan.

11. INSURANCE

The College maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The College also carries professional coverage for employees and its Board of Trustees. Over the past three years, settlement amounts related to these insured risks have not exceeded the College's coverage amounts.

12. CONTINGENCIES

The College receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. It is the opinion of management that any potential disallowance of claims would not have a material effect on the financial statements. The College recorded a reduction of the receivable due from the federal agency of $24,075 and recorded a liability of $58,308 at June 30, 2004 related to over awards of federal student financial aid during fiscal year 2004 as a result of noncompliance with certain federal guidelines.

13. RELATED ORGANIZATION

The Edison Foundation, Inc. (the "Foundation") is a separate not-for-profit entity organized for the purpose of promoting educational activities of the College. Since these resources held by the Foundation can be used only by and for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. The twenty-four-member board of the Foundation is self-perpetuating and consists of graduates and friends of the college.

Amounts received by the College from the Foundation are included in gifts in the accompanying financial statements.

(a) Cash and Cash Equivalents—The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(b) Contributions are recorded as revenues in the year received or when a bequest is legally finalized. Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Funds from pledges to be collected in future years are recorded at net present value. All pledges are net of an allowance for doubtful collections.

(c) Net assets are classified into three categories: (1) unrestricted net assets, which have no donor-imposed restrictions, (2) temporarily restricted net assets, which have donor-imposed restrictions that will expire or be satisfied in the future, and (3) permanently restricted net assets, which have donor-imposed restrictions that neither expire by passage of time nor can be fulfilled by actions of the Foundation.

(d) Investments are stated at fair value which is determined by market quotes. Donated investments are recorded at the fair market value at the time received. Realized gains or losses are determined based on the average cost method.

(e) Long-Term Investments

Investments held by the Foundation as of June 30 were:

	June 30, 2004		June 30, 2003	
	Cost	Market	Cost	Market
UNRESTRICTED—Mutual funds:				
Equity	$ 103,226	$ 118,397	$ 102,168	$ 97,740
Bonds	37,250	36,402	34,250	34,811
UNRESTRICTED AND TEMPORARILY RESTRICTED:				
Endowment:				
U.S. Government, agency obligations and corporate bonds	26,994	27,584	25,188	27,245
Common stocks and equity mutual funds	75,640	98,410	71,219	77,003
Scholarship Endowment—mutual funds:				
Equity	17,932	22,461	16,951	17,985
Bonds	6,471	6,334	6,471	6,586
Title III Special Endowment:				
U.S. Government, agency obligations and corporate bonds	201,083	204,258	230,937	243,616
Common stocks and equity mutual funds	631,387	739,021	575,783	572,031
Alumni Scholarship—mutual funds:				
Equity	10,614	13,342	9,929	10,772
Bonds	5,000	4,898	5,000	5,085
Tri-County Educational:				
U.S. Government, agency obligations, corporate bonds and bond mutual funds	54,211	53,683	54,211	56,136
Common stocks and equity mutual funds	119,685	151,195	115,415	122,661
Technology Endowment—mutual funds:				
Equity	33,665	35,739	32,573	28,880
Bonds	12,008	11,712	12,008	12,206
Other Temporarily Restricted:				
Equity	207,474	251,347	45,298	45,576
Bonds	115,298	113,237	127,285	141,310
UNRESTRICTED, TEMPORARILY RESTRICTED, AND PERMANENTLY RESTRICTED—				
Robinson Scholarship—mutual funds:				
Equity	41,804	45,306	40,392	36,742
Bonds	15,008	14,642	15,008	15,224
	$1,714,750	$1,947,968	$ 1,520,086	$ 1,551,609

(f) Pledges Receivable—As of June 30, 2004 contributors to the Foundation have outstanding unconditional pledges totaling $604,347. Net pledges receivable have been discounted to a net present value of $208,796 which represents fair market value. The discount rate was 5%. All pledges have been classified as temporarily restricted net assets since they will expire or be fulfilled within a specified period of time.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences. Complete financial statements for the Foundation can be obtained from Edison Community College, 1973 Edison Drive, Piqua, OH 45356.

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EDISON STATE COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Federal Grant or Pass-Through Grant/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education:		
Direct-Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grant	84.007	$ 52,126
Federal Family Education Loan	84.032	
Federal Work-Study	84.033	64,228
Federal Pell Grant	84.063	2,305,616
Total Student Financial Assistance Cluster		2,421,970
Passed Through State of Ohio Department of Education:		
Vocational Eduation	84.048	27,164
Tech Prep	84.243	103,498
Total Passed Through State of Ohio Department of Education		130,662
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 2,552,632

EDISON STATE COMMUNITY COLLEGE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards reflects the expenditures on an accrual basis of Edison State Community College under programs financed by the U.S. government for the year ended June 30, 2004. Because the schedule presents only a selected portion of the operations included in the College's financial statements, it is not intended to, and does not, present the financial position, changes in fund balance and current funds revenues, expenditures and other changes.

For purposes of the schedule, Federal Awards include the following:

- Direct federal awards

- Pass-through funds received from non-Federal organizations under Federally sponsored programs conducted by those organizations.

2. FEDERAL FAMILY EDUCATION LOAN PROGRAM

The Federal Family Education Loan Program (Federal CFDA Number 84.032) loans issued to students of the College by financial institutions and processed by the College during the year ended June 30, 2004, are summarized as follows:

Federal Subsidized Stafford Loans	$ 1,168,584
Federal Unsubsidized Stafford Loans	1,801,644
Federal Parental Loans for Undergraduate Students	16,008
	$ 2,986,236

The College is responsible only for the performance of certain administrative duties with respect to this student loan program and, accordingly, these loans are not included in the College's financial statements.

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Deloitte & Touche

INDEPENDENT AUDITORS' 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 Trustees
Edison State Community College and
Betty Montgomery, Auditor of the State of Ohio

We have audited the financial statements of Edison State Community College (the "College") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 2004 which includes an explanatory paragraph relating to the adoption of a new reporting standard. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we have communicated other observations involving the internal control over financial reporting to the management of the College in a separate letter dated November 8, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance related to the student financial aid program that are described in the Schedule of Findings and Questioned Costs as items 04-01 and 04-02.

* * * * * *

This report is intended solely for the information and use of the Board of Trustees and management of the College, the U.S. Department of Education, applicable pass-through agencies and the Auditor of the State of Ohio, and is not intended to be and should not be used for by anyone other than these specified parties.

Deloitte & Touche LLP

November 8, 2004

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Edison State Community College and
Betty Montgomery, Auditor of the State of Ohio

Compliance

We have audited the compliance of Edison State Community College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The College's major federal program is identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

As described in items 04-01 and 04-02 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply in certain instances with requirements regarding returns of Title IV funds and obtaining adequate documentation of student appeals that are applicable to its Student Financial Assistance Cluster program. Compliance with such requirements is necessary, in our opinion, for the College to comply with the requirements is necessary for the College to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01 and 04-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

* * * * * *

This report is intended solely for the information and use of the Board of Trustees and management of the College, the U.S. Department of Education, applicable pass-through agencies and the Auditor of the State of Ohio, and is not intended to be and should not be used for by anyone other than these specified parties.

Deloitte & Touche LLP

November 8, 2004

EDISON STATE COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

1. Summary of auditors' results:

   - Type of Report on the Financial Statements – Unqualified Opinion.
   - Material Weaknesses in Internal Control Over Financial Reporting – None noted
   - Reportable Conditions in Internal Control over Financial Reporting Identified which are not Considered to be Material Weaknesses – Were noted
   - Instances of Noncompliance that were Material to the Financial Statements. – None
   - Material Weakness in Internal Control Over Compliance With Requirements Applicable to Major Federal Awards Programs – None
   - Reportable Conditions in Internal Control over Compliance with Requirements Applicable to Major Federal Awards Programs Identified which are not Considered to be Material Weaknesses – Were noted
   - Type of Report on Compliance for Major Programs – Qualified.
   - Audit Findings Required by OMB A-133 to be Reported by the Auditor – Were noted
   - Major Programs – The major program was student financial assistance which encompasses those Department of Education programs included in this cluster and shown on the Schedule of Expenditures of Federal Awards (CFDA Nos. 84.007, 84.032, 84.033, and 84.063).
   - Dollar Threshold Used to Distinguish Between Type A and Type B programs – $300,000.
   - Low-Risk Auditee – The College did not qualify as a low-risk auditee.

2. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Government Auditing Standards – No matters are reportable.

3. Findings and Questioned Costs for Federal Awards

   Finding 04-01

   Federal Program Information: U.S. Department of Education, Student Financial Aid Cluster

   Condition: Within our sample procedures for compliance with return of title IV funds, 14 out of the 45 student files selected were not in compliance. The College failed to request or inaccurately calculated the amount requested of Title IV funds from the student for return to the lending institution, as required.

Cause: The accuracy of computations was not ensured through a review and monitoring process. The person responsible for this task had inadequate knowledge about the method of computation.

Criteria: The College is required to return the applicable portion of SFA funds resulting from a student's withdrawal to the lending institution within 30 days of receiving notice of withdrawal from courses.

Questioned Costs: Pell Funds: $592, FFELP: $4,021

Recommendation: The College should provide adequate training and supervision over Student Financial Aid counselors. Student files processed should be reviewed by another senior member of the Student Financial Aid Department to ensure accuracy and compliance with appropriate rules and regulations.

Management Corrective Action Plan: The College will provide periodic training to the Student Financial Aid counselors in regards to the correct procedure used when calculating Title IV return of funds. The College will also have the return of funds calculation reviewed by two Student Financial Aid members and the Controller or Staff Accountant to ensure accuracy.

Finding 04-02

Federal Program Information: U.S. Department of Education, Student Financial Aid Cluster

Condition: In October 2004, the College became aware of instances of suspected fraud or malfeasance in the administration of financial aid by the Director of Student Financial Aid for fiscal years 2004 and 2005. As a result, the testing sample was significantly expanded. Within our expanded sample procedures for compliance with student eligibility / disbursement requirements, 24 out of the 78 student files selected were not in compliance with various federal requirements. It appears that the Student Financial Aid Director had inappropriately approved additional federal awards without adequate documentation and / or made incorrect determinations of the amount of aid that could be provided to the student.

Cause: It appears that the Student Financial Aid Director did not obtain adequate third party documentation to substantiate the validity of the appeal for unsatisfactory academic process and unusual circumstances claims. The student files which were in noncompliance did not have adequate documentation for the appeal but were approved and granted additional financial aid.

Criteria: 34 CFR Section 668.16 states that to be eligible for aid, a student must make satisfactory progress and the school is required to establish a satisfactory academic policy. This policy must include specific procedures under which a student may appeal a determination that the student is not making satisfactory academic progress. The College requires the student to provide adequate third party documentation to substantiate the validity of the appeal for unsatisfactory academic process and unusual circumstances claim.

Questioned Costs: $82,383 over award of student financial aid funds to the students.

Recommendation: The College should ensure that the student financial aid counselors follow the established policies and an adequate monitoring process exists in the Student Financial Aid Department to avoid non-compliance. Internal reviews of the administration of the financial aid process should be periodically done to ensure compliance with appropriate rules and regulations.

Management Corrective Action Plan: The College will require the Student Financial Aid Department to follow the established procedures outlined in 34 CFR Section 688.16 before awarding aid. The Student Financial Aid Department will establish a committee to review satisfactory academic progress and ensure all required documentation has been received prior to awarding future financial aid.

Auditor of State
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EDISON STATE COMMUNITY COLLEGE

MIAMI COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 28, 2004