PAINE COLLEGE

Annual Financial Report
June 30, 2011 and 2010

PAINE COLLEGE

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

The Board of Trustees
Paine College
Augusta, Georgia

We have audited the accompanying statements of financial position of Paine College as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Paine College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paine College as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012, on our consideration of Paine College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
March 22, 2012

Paine College

Statements of Financial Position
June 30, 2011 and 2010

	2011				2010			
		Restricted				Restricted		
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
Assets								
Cash and cash equivalents	$ 343,347	$ 1,090,693	$ -	$ 1,434,040	$ 1,195,348	$ 2,024,504	$ -	$ 3,219,852
Receivables								
Student accounts – net	1,478,126	-	-	1,478,126	1,114,005	-	-	1,114,005
Receivable from Federal government	648,743	-	-	648,743	835,498	-	-	835,498
Other accounts	140,297	189,643	-	329,940	127,618	63,372	-	190,990
Total receivables	2,267,166	189,643	-	2,456,809	2,077,121	63,372	-	2,140,493
(Due to)/due from other funds	(1,080,880)	1,080,880	-	-	-	-	-	-
Inventories and prepaid expenses	31,451	-	-	31,451	31,451	-	-	31,451
Investments	131,409	4,194,394	4,946,253	9,272,056	(121,913)	3,383,354	4,886,437	8,147,878
Property, plant and equipment – net	14,426,369	-	-	14,426,369	12,257,738	-	-	12,257,738
Total assets	$ 16,118,862	$ 6,555,610	$ 4,946,253	$ 27,620,725	$ 15,439,745	$ 5,471,230	$ 4,886,437	$ 25,797,412

See notes to financial statements.

Paine College

Statements of Financial Position (continued)
June 30, 2011 and 2010

	2011				2010			
		Restricted				Restricted		
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
Liabilities and net assets								
Liabilities								
Accounts payable	$ 1,511,974	$ 3,668	$ -	$ 1,515,642	$ 1,355,838	$ 3,798	$ -	$ 1,359,636
Outstanding checks in excess of bank balance	304,268	-	-	304,268	-	-	-	-
Accrued liabilities	314,603	-	-	314,603	513,701	-	-	513,701
Deferred revenue	1,137,587	73,287	-	1,210,874	900,856	75,940	-	976,796
Line of credit	41,000			41,000	-	-	-	-
Capital lease payable	767,700	-	-	767,700	-	-	-	-
Mortgages, notes and bonds payable	3,556,799	-	-	3,556,799	3,687,506	-	-	3,687,506
Advances from Federal government for student loans	728,868	-	-	728,868	728,868	-	-	728,868
Total liabilities	8,362,799	76,955	-	8,439,754	7,186,769	79,738	-	7,266,507
Net assets								
Unrestricted	7,756,063	-	-	7,756,063	8,252,976	-	-	8,252,976
Temporarily restricted	-	6,478,655	-	6,478,655	-	5,391,492	-	5,391,492
Permanently restricted	-	-	4,946,253	4,946,253	-	-	4,886,437	4,886,437
Total net assets	7,756,063	6,478,655	4,946,253	19,180,971	8,252,976	5,391,492	4,886,437	18,530,905
Total liabilities and net assets	$ 16,118,862	$ 6,555,610	$ 4,946,253	$ 27,620,725	$ 15,439,745	$ 5,471,230	$ 4,886,437	$ 25,797,412

See notes to financial statements.

Paine College

Statements of Activities
Years Ended June 30, 2011 and 2010

	2011				2010			
		Restricted				Restricted		
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
Revenues								
Tuition and fees	$ 9,805,228	$ -	$ -	$ 9,805,228	$ 9,811,681	$ -	$ -	$ 9,811,681
Federal Title III program	2,520,410	-	-	2,520,410	1,786,918	-	-	1,786,918
Other governmental grants and contracts	2,333,135	-	-	2,333,135	1,379,053	-	-	1,379,053
Private gifts, grants, and contracts	1,450,737	1,092,235	59,816	2,602,788	1,420,134	429,911	259,819	2,109,864
Auxiliary enterprises	3,143,168	-	-	3,143,168	2,966,998	-	-	2,966,998
Investment income (loss) on investments, net	272,447	1,223,106	-	1,495,553	47,473	563,135	-	610,608
Other income	237,380	-	-	237,380	155,387	-	-	155,387
Net assets released from restrictions	1,228,178	(1,228,178)	-	-	931,208	(931,208)	-	-
Total revenues	20,990,683	1,087,163	59,816	22,137,662	18,498,852	61,838	259,819	18,820,509
Expenses								
Educational and general instruction and departmental research	7,937,728	-	-	7,937,728	7,033,656	-	-	7,033,656
Academic support	326,833	-	-	326,833	338,840	-	-	338,840
Student services	1,158,446	-	-	1,158,446	1,203,887	-	-	1,203,887
Institutional support	7,053,310	-	-	7,053,310	5,319,991	-	-	5,319,991
Operation and maintenance of plant	2,182,382	-	-	2,182,382	2,056,636	-	-	2,056,636
Auxiliary enterprises	2,667,794	-	-	2,667,794	2,230,168	-	-	2,230,168
Interest expense	161,103	-	-	161,103	208,356	-	-	208,356
Total expenses	21,487,596	-	-	21,487,596	18,391,534	-	-	18,391,534
Increase (decrease) in net assets	(496,913)	1,087,163	59,816	650,066	107,318	61,838	259,819	428,975
Net assets								
Beginning	8,252,976	5,391,492	4,886,437	18,530,905	8,145,658	5,329,654	4,626,618	18,101,930
Ending	$ 7,756,063	$ 6,478,655	$ 4,946,253	$ 19,180,971	$ 8,252,976	$ 5,391,492	$ 4,886,437	$ 18,530,905

See notes to financial statements.

Paine College

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 650,066	$ 428,975
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	604,592	699,375
Provision for uncollectible accounts	500,714	295,882
Net realized and unrealized (gains) losses on long-term investments	(1,484,996)	(601,330)
Change in operating assets and liabilities		
Students accounts receivable	(864,835)	(594,377)
Grants receivable from Federal government	186,755	117,849
Other receivables	(138,950)	81,157
Accounts payable	156,006	293,144
Outstanding checks in excess of bank balance	304,268	-
Accrued liabilities	(199,098)	411,078
Deferred revenue	234,078	(148,568)
Contributions restricted for long-term investments	(59,816)	(259,819)
Net cash provided by (used in) operating activities	(111,216)	723,366
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,005,523)	(927,094)
Purchases of investments	(60,516)	(339,224)
Proceeds from sale of investments	421,334	613,496
Net cash used in investing activities	(1,644,705)	(652,822)
Cash flows from financing activities		
Line of credit - net	41,000	-
Payments on notes payable	(130,707)	(126,999)
Contributions restricted for long-term investments	59,816	259,819
Net cash provided by (used in) financing activities	(29,891)	132,820
Net (decrease) increase in cash and cash equivalents	(1,785,812)	203,364
Cash and cash equivalents at beginning of year	3,219,852	3,016,488
Cash and cash equivalents at end of year	$ 1,434,040	$ 3,219,852
Cash and cash equivalents	343,347	1,195,348
Cash and cash equivalents – restricted	1,090,693	2,024,504
Total cash and cash equivalents	$ 1,434,040	$ 3,219,852

See notes to financial statements.

Notes to Financial Statements
Year Ended June 30, 2011

Note 1 - Summary of significant accounting policies

Nature of activities - Paine College (the "College") is an Augusta, Georgia-based, private church-related, four-year, co-educational, residential college that strives to provide a quality liberal arts education that emphasizes ethical and spiritual values, social responsibility and personal development.

Basis of presentation - The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codifications (FASB ASC) 958, "Not-for-Profit Entities." Under FASB ASC 958, the College is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted – Net assets that are not subject to donor imposed restrictions. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $361,351 and $568,510 as of June 30, 2011 and 2010, respectively.

Temporarily restricted – Net assets resulting from contributions restricted by outside sources are reported as temporarily restricted and are distinguished from unrestricted net assets allocated to specific purposes by action of the governing board. Externally restricted net assets may only be utilized in accordance with the purposes established by the source of net assets and are in contrast with unrestricted net assets over which the governing board retains full control for use in achieving any of its institutional purposes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the College reports the support as unrestricted.

Permanently restricted – Net assets arising from contributions, which are required to be invested and maintained in perpetuity, are classified as permanently restricted. Net investment income on assets pledged for permanently restricted net assets is classified as restricted earnings or gains, based on restrictions placed on the use of the net appreciation by the donor.

Cash and cash equivalents - Cash and cash equivalents consist of cash in banks primarily constituting demand-type accounts and short-term investments purchased with original maturities of three months or less.

All highly liquid cash investments with an original maturity of three months or less when purchased, except for funds on deposit with bond trustees or endowment investment managers, are considered to be cash and cash equivalents. Funds on deposit with endowment investment managers are reported as investments. Funds on deposit with bond trustees are reported as restricted cash.

Accounts receivable – Student accounts receivable are stated at cost less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. It is the College's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The allowance for doubtful accounts at June 30, 2011 and 2010 was $3,400,000 and $2,900,000, respectively. Bad debt expense was $500,714 and $295,882 for the year ended June 30, 2011 and June 30, 2010 and is included institutional support expenses.

Note 1 - Summary of significant accounting policies (continued)

Inventories - Inventory is maintained for the central processing department and is stated at the lower of cost (first-in, first-out) or market.

Investments – Investments are recorded in accordance with the provisions of FASB ASC 958-320, *Investments – Debt and Equity Securities*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities.

Changes in fair value of securities are reflected as investment income in the accompanying statement of activities. Real estate investments are stated primarily at their cost or appraised value at the time of donation. The Board designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The Board has approved an annual endowment earnings spending policy of up to five percent of the average investment balance over the last three years.

Fair value of a financial instrument is defined as the amount at which would be received by the seller in an exchange between market participants in the most advantageous market. The College's financial instruments principally consist of cash and cash equivalents, short-term receivables and payables and various debt instruments. Due to their short term nature, the carrying value of cash and cash equivalents, receivables and payables approximates their fair value. The fair value of the various debt instruments has been estimated using interest rates currently offered to the College for borrowings having similar charter, collateral and duration. The carrying amount of such debt instruments approximates the fair value at June 30, 2011 and 2010.

Property, plant and equipment – Property, plant and equipment is stated at cost at date of acquisition for assets purchased or fair value at date of donation in the case of gifts less accumulated depreciation. Depreciation on physical plant and equipment is recorded over the estimated useful life of the assets. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. Property and equipment are depreciated using the straight-line basis over the estimated useful lives of the assets. Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2011 represents the gymnasium under construction. Construction in progress at June 30, 2010, represents the gymnasium under construction and renovations to Haygood Holsey Hall.

Deferred revenue - Deferred revenue consists primarily of student tuition and state and federal grants that have been awarded for which the College has not incurred expenses.

Revenues - The College receives grants primarily from Student Financial Assistance Programs, Department of Education and Department of Health and Human Services. The grants are on a reimbursement basis. As the College incurs expenses in connection with the grants, a receivable and revenue are recorded for the amount of the reimbursement to the College from the grants.

Note 1 - Summary of significant accounting policies (continued)

Contributions and grants - All contributions and non-exchange grants are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received that are designated for future periods or restricted by the donor or grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions and grants that are restricted by the donor or grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Promises to give – Unconditional promises to give are recognized as support in the period in which they are received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give.

Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and fund raising activity.

Tuition - Tuition is recognized as revenue in the year for which instruction is rendered, and is shown net of scholarships and awards. For the years ended June 30, 2011 and 2010, scholarships and awards totaled $1,086,464 and $1,227,486, respectively.

Refundable government loan funds – Advances from the Federal government under the Perkins Loan Program are distributable to the Federal government upon liquidation of the funds and thus funds not distributed to the Federal government are reflected as liabilities on the statement of financial position.

Concentrations of credit risk - Financial instruments that potentially expose the College to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The College grants credit to its students for tuition and fees based upon the amount of financial aid available to the students. The majority of students come from the states of Georgia and South Carolina. However, the College attracts students from throughout the United States of America.

The College places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. During the year, the College from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2011 and 2010, the College had $783,162 and $2,902,862, respectively, which exceeded these insured amounts.

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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of any 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.

Notes to Financial Statements
Year Ended June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Income taxes – The College is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by U S Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that the College continues to satisfy the requirements of a tax-exempt organization at June 30, 2011 and 2010. Management has evaluated all other tax positions that could have a significant affect on the financial statements and determined the College had no uncertain income tax positions at June 30, 2011 or 2011.

Reclassifications – Certain reclassifications have been made to the June 30, 2010 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Note 2 – Cash and cash equivalents – restricted

Cash and cash equivalents – restricted at June 30, 2011 and 2010, consist of cash and cash equivalents in the restricted fund, and are restricted as to its use as follows:

	2011	2010
Scholarships	$ 382,724	$ 904,987
Capital improvements	707,969	1,119,517
	$ 1,090,693	$ 2,024,504

Note 3 - Investments

Investments (unrestricted) consist of money market funds having a value of $97,160 at June 30, 2011 and 2010, required to be maintained in accordance with the trust indenture described in Note 6.

Note 3 – Investments (continued)

Investments of endowment funds at June 30, 2011 and 2010, consist of the following:

	2011	2010
Equities		
Exchange traded funds - large cap growth	$ 1,534,946	$ 1,050,540
Exchange traded funds - large cap value	1,388,005	957,989
Exchange traded funds - small cap growth	867,835	641,238
Exchange traded funds - small core equity	883,765	458,241
Exchange traded funds - international	1,410,745	731,800
Exchange traded funds - other	182,247	146,996
Total equities	6,267,543	3,986,804
Fixed income		
Money market funds	262,261	363,436
Certificates of deposit	1,280,104	1,025,312
Government bonds	622,651	1,125,759
Corporate bonds	742,337	1,549,407
Total fixed income	2,907,353	4,063,914
Total investments	$ 9,174,896	$ 8,050,718

Investments at June 30, 2011 and 2010, consist of the following:

	2011	2010
Plant fund – trust indenture (unrestricted)	$ 97,160	$ 97,160
Endowment funds	9,174,896	8,050,718
	$ 9,272,056	$ 8,147,878

Analysis of investment return at June 30, 2011 and 2010:

	2011	2010
Interest plus dividends	$ 195,309	$ 245,287
Realized plus unrealized gains (losses)	1,387,808	442,295
Investment expenses	(87,564)	(76,974)
Investment income (loss) on investments, net	$ 1,495,553	$ 610,608

Paine College

Notes to Financial Statements
Year Ended June 30, 2011

Note 4 – Property, plant and equipment

Property, plant and equipment at June 30, 2011 and 2010, consists of the following:

	2011	2010	Useful Lives
Land	$ 1,863,022	$ 1,863,022	
Land improvements	615,754	615,754	10 years
Buildings	20,199,016	18,909,139	10 – 40 years
Furniture and equipment	8,047,201	6,767,883	3 – 10 years
Library books	520,000	520,000	7 years
Construction in progress	844,526	640,498	
	32,089,519	29,316,296	
Less accumulated depreciation	17,663,150	17,058,558	
Property, plant and equipment - net	$ 14,426,369	$ 12,257,738	

Depreciation expense was $604,592 and $699,375 for the years ended June 30, 2011 and 2010, respectively, and is included operation and maintenance of plant expenses.

Note 5 - Deferred revenue

Deferred revenue at June 30, 2011 and 2010, consists of the following:

	2011	2010
Tuition and fees	$ 355,021	$ 100,701
Other	142,708	162,950
Federal programs	713,145	713,145
	$ 1,210,874	$ 976,796

Note 6 – Trust indentures

The College became a party to a trust indenture agreement in 1976 to borrow money for the construction of its administration-academic building. The College borrowed $1,500,000 from the United States government at an interest rate of 3% per year. The indenture agreement contains provisions for the College to maintain the following funds for the stated purposes:

1. Bond and Interest Sinking Fund Account - College shall deposit $22,500 semiannually for the purpose of meeting current principal and interest payments.

2. Debt Service Reserve Account - College shall deposit $17,455 annually until a balance of $69,820 has accumulated for the purpose of paying interest and principal in the event funds in the bond and interest sinking fund account are insufficient for payment of current principal and interest.

At June 30, 2011 and 2010, the College had $47 in its sinking fund account and $97,113 in its debt service reserve account as described in Note 3.

Note 7 – Line of credit

The College has a $750,000 secured bank line of credit which matures February 28, 2012. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 1.00%. At June 30, 2011 and 2010, $41,000 and $0 was outstanding on this line. Accounts receivable is pledged as security on the line of credit.

Note 8 – Letter of credit

At June 30, 2010, the College has outstanding irrevocable letter of credit in the amount of $20,650. The letter of credit, which expired in September 2010, collateralizes the College's obligation to the U.S. Department of Education that may result from act or omissions of the College or to pay refunds to or on behalf of current or former students.

Note 9 – Capital lease payable

The College obtained a lease agreement with a maximum credit available of $1,039,000 which matures November 1, 2011. Upon maturity, the outstanding balance will be converted to a capital lease requiring 5 annual payments of $222,304. At June 30, 2011, $767,700 was outstanding on this line. Equipment is pledged as security on the line of credit.

Following is a summary of property held under capital leases:

	2011	2010
Furniture and equipment	$ 805,444	$ -
Accumulated depreciation	-	-
	$ 805,444	$ -

Note 10 - Mortgages, notes and bonds payable

Mortgages, notes and bonds payable included in the College's plant fund (unrestricted) at June 30, 2011 and 2010, consist of the following:

	2011	2010
Bond payable to bank, due in annual installments varying from $30,000 to $68,000 with the final installment being due in 2016. Interest is payable in semi-annual installments at a rate of 3%. The note is collateralized by a trust indenture covering the administration academic building.	$ 378,000	$ 435,000
Note payable to bank due in monthly installments of $21,568 including interest at 6.25% and with the final installment in December 2012. The note is collateralized by real property.	3,148,963	3,208,915
Note payable for equipment purchase with monthly payments of $688 including interest at 0% and the final payment due October 2012. The note is secured by equipment.	11,682	19,268
Note payable for equipment purchase with monthly payments of $674 including interest at 5.99% and the final payment due October 2013. The note is secured by equipment.	18,154	24,323
	$ 3,556,799	$ 3,687,506

For the years ended June 30, 2011 and 2010, the College recorded interest expense of $205,384 and $208,356, of which $44,281 was capitalized in 2011.

Combined aggregate future maturities of the College's plant fund mortgages, notes and bonds payable are as follows as of June 30, 2011:

2012	$ 133,159
2013	3,161,064
2014	64,576
2015	64,000
2016	66,000
2017 and after	68,000
	$ 3,556,799

Note 11 – Net assets

Net assets at June 30, 2011 and 2010 are temporarily restricted for the following purposes:

	2011	2010
Scholarships	$ 5,770,686	$ 4,271,975
Capital improvements	707,969	1,119,517
	$ 6,478,655	$ 5,391,492

Net assets permanently restricted to provide income to fund scholarships amounted to $4,946,253 and $4,886,437 at June 30, 2011 and 2010, respectively.

Note 12 - Pension fund

The College participates in the Lay Employees Pension Fund administered by The General Board of Pensions of the United Methodist Church and the TIAA-CREF Retirement Fund. Both plans are defined contribution plans and are available to academic and non-academic personnel. Approximately 53% of full time employees and 43% of total employees participated in the plans at June 30, 2011. Approximately 54% of full time employees and 44% of total employees participated in the plans at June 30, 2010. Participants contribute three percent (3%) of their salary to the plans, which the College matches two for one with a six percent (6%) contribution. The pension expense for the years ended June 30, 2011 and 2010 was approximately $427,000 and $332,000, respectively.

Note 13 – Self-funded insurance plan

The College maintains a self-funded insurance plan for employee health and medical expenses that began in April 2005. As part of this plan, the College provides coverage for all full time employees and supplemental spouse and dependent care coverage. The College's liability under the self-funded insurance plan is capped by a stop-loss agreement of $80,000 per occurrence with the insurance companies. The College paid $1,451,008 and $902,133 for employee health and medical expenses for the years ended June 30, 2011 and 2010, respectively.

Note 14 – Fund-raising expenses

Total fund-raising expenses for the years ended June 30, 2011 and 2010 totaled $67,155 and $64,361, respectively, and are included in auxiliary enterprises expenses.

Note 15 – Supplemental disclosures of cash flow information

Cash paid for interest totaled $205,384 and $208,356 for the years ended June 30, 2011 and 2010, respectively. During the year ended June 30, 2011, the College financed the purchase of a equipment for $767,700 with a capital lease. During the year ended June 30, 2010, the College financed the purchase of a building for $730,892 and consolidated multiple notes with a new note payable to the bank in the amount of $3,242,200. The College also financed the addition of two automobiles with notes payable totaling $53,421.

Note 16 – Commitment and contingencies

The College receives grants under various Federal and state sponsored programs. Specific requirements are to be met by the College concerning the grants, the most common being maintenance of a proper level of documentation. The programs are subject to audit by either the agency administering the program or another agency. The College believes a repayment amount, if any, would not be material to the College's financial position or results of operations.

The College is currently a defendant in lawsuits filed by four former employees, one former student and one other person. The College intends to vigorously contest these allegations, which appear to lack merit according to the legal counsel. Management and the legal counsel are unable to accurately estimate the likelihood or range of potential loss due to the case being in the early stages of discovery.

The College is currently constructing a new gymnasium. The construction contract is a cost of work plus a fee with a guaranteed maximum price of $7,568,459.

Note 17 - Fair value measurements

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

> Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
>
> Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> Level 3 - Inputs that are unobservable for the asset or liability.

Note 17 - Fair value measurements (continued)

The following table presents our assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Investments:				
Equities				
Exchange traded funds - large cap growth	$ 1,534,946	$ -	$ -	$ 1,534,946
Exchange traded funds - large cap value	1,388,005	-	-	1,388,005
Exchange traded funds - small cap growth	867,835	-	-	867,835
Exchange traded funds - small core equity	883,765	-	-	883,765
Exchange traded funds - international	1,410,745	-	-	1,410,745
Exchange traded funds - other	182,247	-	-	182,247
Total equities	6,267,543	-	-	6,267,543
Fixed income				
Money market funds	359,421	-	-	359,421
Certificates of deposit	1,280,104	-	-	1,280,104
Government bonds	-	622,651	-	622,651
Corporate bonds	-	742,337	-	742,337
Total fixed income	1,639,525	1,364,988	-	3,004,513
Total investments - recurring basis	$ 7,907,068	$ 1,364,988	$ -	$ 9,272,056

Note 17 - Fair value measurements (continued)

The following table presents our assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Investments:				
Equities				
Exchange traded funds - large cap growth	$ 1,050,540	$ -	$ -	$ 1,050,540
Exchange traded funds - large cap value	957,989	-	-	957,989
Exchange traded funds - small cap growth	641,238	-	-	641,238
Exchange traded funds - small core equity	458,241	-	-	458,241
Exchange traded funds - international	731,800	-	-	731,800
Exchange traded funds - other	146,996	-	-	146,996
Total equities	3,986,804	-	-	3,986,804
Fixed income				
Money market funds	460,596	-	-	460,596
Certificates of deposit	1,025,312	-	-	1,025,312
Government bonds	-	1,125,759	-	1,125,759
Corporate bonds	-	1,549,407	-	1,549,407
Total fixed income	1,485,908	2,675,166	-	4,161,074
Total investments - recurring basis	$ 5,472,712	$ 2,675,166	$ -	$ 8,147,878

Note 18 – Endowment funds

Effective July 1, 2008, the College adopted the provisions of FASB ASC 958-205, *"Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"*. FASB ASC 958-205 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowments funds, both donor-restricted endowment funds and board-designated endowment funds.

The College's endowment consists of individual funds established for donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 18 – Endowment funds (continued)

The Board of Directors of the College has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Endowment net assets consist of the following at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (361,351)	$ 4,194,394	$ 4,946,253	$ 8,779,296
Board-designated endowment funds	395,600	-	-	395,600
Total endowed net assets	$ 34,249	$ 4,194,394	$ 4,946,253	$ 9,174,896

Endowment net assets consist of the following at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (568,510)	$ 3,383,354	$ 4,886,437	$ 7,701,281
Board-designated endowment funds	349,437	-	-	349,437
Total endowed net assets	$ (219,073)	$ 3,383,354	$ 4,886,437	$ 8,050,718

Note 18 – Endowment funds (continued)

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	$ (219,073)	$ 3,383,354	$ 4,886,437	$ 8,050,718
Investment return:				
Investment income	4,368	92,820	-	97,188
Net appreciation	267,868	1,119,940	-	1,387,808
Total investment return	272,236	1,212,760	-	1,484,996
Contributions	-	700	59,816	60,516
Appropriation for expenditure	(18,914)	(402,420)	-	(421,334)
Endowment net assets, June 30, 2011	$ 34,249	$ 4,194,394	$ 4,946,253	$ 9,174,896

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ (253,865)	$ 3,409,501	$ 4,568,024	$ 7,723,660
Investment return:				
Investment income	6,975	144,825	-	151,800
Net appreciation	48,183	401,415	-	449,598
Total investment return	55,158	546,240	-	601,398
Contributions	-	79,425	259,819	339,244
Reclassification of net assets	-	(58,594)	58,594	-
Appropriation for expenditure	(20,366)	(593,218)	-	(613,584)
Endowment net assets, June 30, 2010	$ (219,073)	$ 3,383,354	$ 4,886,437	$ 8,050,718

Note 18 – Endowment funds (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $361,351 and $568,510 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that out perform accepted indices such as the Standard and Poor's Index for equity and the Lehman Brothers Index for fixed income securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equity securities and fixed income securities in a 60/40 percent ratio to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of disbursing each year 5% of the average June 30th market values of the endowment funds at the end of a consecutive three year period. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Note 19 – Subsequent events

During the year ended June 30, 2011, the College reported a decrease in unrestricted net assets and a negative cash flow from operating activities. Since June 2011, the College did not meet its student enrollment goal for the Fall and Spring semesters for fiscal year 2012, resulting in the College obtaining additional financing sources. In its plans to resolve the temporary cash flow deficit, the College has begun to implement cost reductions, increase student enrollment and seek additional fundraising sources. Management expects to reverse the negative trend by June 2012.

Subsequent to June 30, 2011, the College has drawn additional amounts on the line of credit to meet current cash flow needs. On February 28, 2012, the College's bank line of credit of $750,000 matured and was extended by the lender until May 28, 2012.

In March 2012, the Executive Committee of the Board of Directors of the College voted to approve the Management's request to obtain a line of credit in the amount of $3M bearing interest of 3.25%, using the endowment funds as collateral. As of March 22, 2012, the loan documents have not been executed nor have funds been drawn on this line of credit. The primary purpose of Management's request for the $3 million loan is to provide temporary financing for College operations. After further consideration, Management plans to forego this line of credit request and seek an increase in the existing $750,000 line of credit to $2,000,000.

In January 2012, the College obtained a loan for $7M to fund the construction of the new gymnasium. The loan has an interest rate of 4.25% and accrued interest will be due monthly, with substantially all buildings, improvements and equipment of the College serving as collateral for this loan. The principal balance will repaid by $2.5M in Special Purpose Local Option Sales Tax funds and the remaining balance through a capital campaign over the next five (5) years. Any unpaid balance at the end of five years will be amortized over fifteen (15) years.

Subsequent to June 30, 2011, the College was informed that due to cohort default rate from 2008 through 2011, the College is ineligible to participate in the Federal Perkins Loan Program through June 30, 2014.

The College has evaluated subsequent events through March 22, 2012, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued. Except as noted above, there were no material subsequent events requiring adjustment to or disclosure in the financial statements for the year ended June 30, 2011.

Paine College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/ Program or Cluster Title	Federal CFDA Number		Federal Expenditures
Student Financial Assistance Cluster			
Department of Education			
Direct Funding:			
Federal Pell Grant Program (PELL)	84.063	$	3,639,623
Federal Work – Study program	84.033		455,748
Federal Supplemental Educational Opportunity Grant Program	84.007		207,683
Academic Competitiveness Grant	84.375		58,150
Federal Perkins Loans (Note 2)	84.038		385,480
Teacher Education Assistance for College and Higher Education Grants	84.379		19,000
Federal Direct Student Loans (Direct Loan)	84.268		8,265,192
Total Student Financial Aid Cluster			13,030,876
TRIO Cluster			
Department of Education			
Direct Funding:			
Upward Bound Program	84.047A		354,251
Student Support Services	84.042A		240,068
Total TRIO Cluster			594,319
Research and Development Cluster			
Department of Defense			
Direct Funding:			
COI for Intelligent Systems	12.OFA		87,409
National Science Foundation			
Direct Funding:			
NSF-Historically Black Colleges & Universities Undergraduate Program	47.076		215,830
Department of Energy			
Direct Funding:			
Research/Pipeline/Workforce Initiative	81.104		997,666
Total Research and Development Cluster			1,300,905
Other Programs			
Department of Education			
Direct Funding:			
Title III-Strengthening Historically Black Colleges & Universities	84.031B		2,520,410
Total expenditures of Federal awards		$	17,446,510

Paine College

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Paine College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Perkins Loan Program

The College administers the Federal Perkins Loan Program to provide financial aid to the students and transactions relating to this program are included in the College's financial statements. The loan balance outstanding and funds advanced by the College during the year ended June 30, 2011 under the Federal Perkins Loan program can be summarized as follows:

Federal Perkins Loan receivable, June 30, 2010	$	345,380
Funds advanced to students		40,100
Less:		
Collections		(26,971)
Federal Perkins Loan receivable, June 30, 2011	$	358,509

Subsequent to June 30, 2011, the College was informed that due to cohort default rate from 2008 through 2011, the College is ineligible to participate in the Federal Perkins Loan Program through June 30, 2014.

Note 3 – Non-cash awards

Paine College did not receive any material non-cash federal awards during the year ended June 30, 2011.

Note 4 – Contingencies

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although Paine College expects such amounts, if any, to be immaterial.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERMENT AUDITING STANDARDS*

The Board of Trustees
Paine College
Augusta, Georgia

We have audited the financial statements of Paine College as of and for the year ended June 30, 2011, and have issued our report thereon dated March 22, 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 Paine College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paine College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Paine College'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 in the accompanying schedule of findings and questioned costs, 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, as described in 11-FS-01 and 11-FS-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paine College'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*.

Paine College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Paine College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
March 22, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Trustees
Paine College
Augusta, Georgia

Compliance

We have audited Paine College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Paine College's major federal programs for the year ended June 30, 2011. Paine College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Paine College's management. Our responsibility is to express an opinion on Paine 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; 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 Paine 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 of Paine College's compliance with those requirements.

As described in the table below and in the accompanying schedule of findings and questioned costs, Paine College did not comply with requirements that are applicable to the following:

Finding Number	Program Name and CFDA Number	Compliance Requirement
11-04	Federal Direct Student Loans (CFDA #84.268)	Special Tests and Provisions – Enrollment Reporting
11-05	Federal Direct Student Loans (CFDA #84.268)	Special Tests and Provisions – Borrower Data Transmission and Reconciliation
11-06	Federal Perkins Loan (CFDA #84.038)	Reporting, Management

11-07	Student Financial Aid Cluster (CFDA #84.007, 84.033, 84.038, 84.063, 84.268, 84.375, 84.379)	Administrative Capabilities
11-08	Office of Environmental Waste Processing (CFDA #81.104)	Allowable Costs
11-12	Office of Environmental Waste Processing (CFDA #81.104)	Reporting

Compliance with such requirements is necessary, in our opinion, for Paine College to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Paine College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-02 and 11-03.

Internal Control Over Compliance

Management of Paine College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Paine College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paine College's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-01, 11-04, 11-05, 11-06, 11-07, 11-08, 11-11, and 11-12 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-02, 11-03, 11-09, and 11-10 to be significant deficiencies.

Paine College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Paine College's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the finance committee, management and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
March 22, 2012

PAINE COLLEGE

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

I. Summary of the Auditors' Results

<u>Financial Statements</u>

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	_X_ yes ____ no
• Significant deficiency(ies) identified?	____ yes _X_ none reported
Noncompliance material to financial statements noted?	____ yes _X_ no

<u>Federal Awards</u>

Internal control over major federal programs:	
• Material weakness(es) identified?	_X_ yes ____ no
• Significant deficiency(ies) identified?	_X_ yes ____ none reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_X_ yes ____ no

<u>Identification of Major Programs</u>

The programs tested as major programs of Paine College included:

CFDA #	Name of Federal Program
Student Financial Aid Cluster	
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.375	Academic Competitiveness Grants
84.379	Teacher Education Assistance for College and Higher Education Grants
Research and Development Cluster	
12.OFA	Department of Defense Other Financial Assistance
47.076	Education and Human Resources
81.104	Office of Environmental Waste Processing

The dollar threshold for distinguishing between Type A and Type B programs for Paine College was $523,395.

Paine College did not qualify as a low-risk auditee.

II. Findings in relation to the Audit of the Financial Statements

Finding 11-FS-01

CRITERIA:
A properly designed internal control structure includes internal controls over the preparation of financial statements in accordance with generally accepted accounting principles.

CONDITION:
The auditor proposed significant adjustments to the College's accounts, so that the financial statements comply with generally accepted accounting principles ("GAAP"). The adjustments noted during the audit indicates a deficiency in the internal control process, as it is evidence that the errors were not detected by the College's internal control system. Specifically, these deficiencies resulted from ineffective policies and procedures over the College's financial reporting in accordance with generally accepted accounting principles.

CAUSE:
The College did not have sufficient resources devoted to financial reporting nor personnel with the appropriate financial reporting knowledge level in order to properly prepare and review financial statements in accordance with generally accepted accounting principles.

EFFECT:
The result of the audit included a significant number of adjusting journal entries required to correct errors noted during the audit. The auditor also had to compile a significant amount of information for the required disclosures in the financial statements.

RECOMMENDATION:
We recommend that management consider the cost-benefit analysis of the preparation of its financial statements in accordance with GAAP. We also recommend that management continue the training and supervision of its finance and accounting staff in order to reconcile all balance sheet accounts to supporting documentation on a timely basis.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs.

To ensure that there are sufficient resources devoted to financial reporting, the college has allocated additional fiscal resources for the employment of qualified personnel, training, and equipment.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Findings in relation to the Audit of the Financial Statements – (continued)

The College has employed two of the three members of the fiscal management team. First, the college employed the Comptroller with more than 25 years of exemplary experience in planning, developing, implementing, and assessing financial statements in accordance with generally accepted accounting principles in higher education. Her resume reflects that she is one of three recipients of the Virginia Chief Financial Officer of the Year Award in the nonprofit category in 2010. Secondly, the college has employed an Assistant Comptroller with more than 24 years of experience in areas such as fiscal management of revenue, budgeting, financial reporting, and knowledge of federal regulation, as it relates to federal grants and contracts. The Assistant Comptroller is a certified public accountant in the state of Georgia. The College also has completed the first round of interviews, via national search firm, for the Chief Fiscal Officer to be employed on or about July 2012.

The staff will utilize financial statements in the Jenzabar system, which are formatted in accordance with GAAP. The Comptroller's Office will ensure that the balance sheet accounts are reconciled in a timely manner and that the automated financial statements reflect the true financial position of the College. The College will continue quarterly training and conduct daily supervision of its finance and accounting staff.

Finding 11-FS-02

CRITERIA:

Proper internal control requires the College's ability track, reconcile and post cash properly.

CONDITION:

Multiple control deficiencies were noted relating to cash, including not preparing bank reconciliations timely and not recording transactions timely.

CAUSE:

The College did not have sufficient resources devoted to the accounting process nor personnel with the appropriate known to record all transaction or reconcile the cash accounts.

EFFECT:

The result of the audit included a significant number of adjusting journal entries required to correct errors.

RECOMMENDATION:

We recommend that management required all cash accounts to be reconciled to the general ledger monthly. We also recommend that management continue the training and supervision of its finance and accounting staff in order to ensure all transaction are recorded timely.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:

The College concurs. The College will hire a Bursar with the appropriate accounting knowledge to ensure that all cash is posted in a timely manner. The College will continue to strengthen procedures to ensure that all bank reconciliations are completed by the 15th day of each month.

The Assistant Comptroller will perform the functions of recording and reconciling cash accounts until such time as a new qualified Bursar is employed. Additionally, the Comptroller will monitor and review the work of the Assistant Comptroller.

III. Federal Awards Findings and Questioned Costs

Finding 11-01

Federal Agency:	All
Federal Program:	All
CFDA:	All
Compliance Requirement:	SEFA
Type of Finding:	Material Weakness – Internal Controls over Compliance

CRITERIA:
Circular A-133 requires the auditee to prepare a SEFA for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List individual Federal programs by Federal agency.
- Include, for Federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

CONDITION:
A complete SEFA was not prepared by the College. The auditors had to prepare the SEFA based upon general ledger detail. There were also errors noted within the recording of federal expenditures and revenues which required audit adjustments.

CAUSE:
Procedures and controls over the collection of data to be included in the SEFA are currently not in place.

EFFECTS:
Without proper control in place over the reporting of Federal awards, Federal grants may not be properly reported on the Schedule of Federal Awards in the Single Audit report. The College is at risk of losing future funding for those programs and/or may have to repay funds back to the grantor that were already received.

RECOMMENDATIONS:
We recommend that the College implement policies, procedures, and management controls over the collection of data to be included in the SEFA to ensure that it includes all the required elements.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will prepare the SEFA within sixty (60) days of the close of the fiscal year. The College will develop and implement policies, procedures, and management controls over the collection of data to be included in the SEFA.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Federal Awards Findings and Questioned Costs – (continued)

Finding 11-02

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.033, 84.038, 84.063, 84.268, 84.375, 84.379
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency – Internal Controls over Compliance Nonmaterial Noncompliance

CRITERIA:
34CFR §668.32 Student eligibility—general.
Among many requirements a student must meet in order to be eligible to receive Title IV, HEA program assistance is that the student must be a regular student enrolled, or accepted for enrollment, in an eligible program at an eligible institution.

CONDITION:
During our testing of forty (40) sampled students and the federal awards they received for the 2010/2011 year, we noted two (2) students received Title IV federal awards for a semester in which they did not attend. One student received a Pell Grant award for the Summer 2011 in the amount of $1,200 and another student received unsubsidized loans in the amount of $4,750 (net of fees $4,727) for the Spring 2011. Neither student attended school in the semester in which the funds were received, nor have the funds been returned to the Department of Education.

QUESTION COSTS:
$5,950 federal aid disbursed to students in a semester in which the students did not attend school.

CAUSE:
According to the Student Financial Aid Director, both students had registered for classes but withdrew before classes started. The Pell award was disbursed to the student on July 25, 2011 which was after the Summer semester was over. The loans were disbursed to the student on April 7, 2011 which was three months after the Spring semester started. There is no indication on the students' transcripts that these students began attendance and withdrew during the semester.

EFFECTS:
Ineligible students received Title IV federal financial aid.

RECOMMENDATIONS:
We recommend that the College develop and implement policies, procedures, and management controls to ensure students are enrolled prior to disbursing Title IV funds.

Federal Awards Findings and Questioned Costs – (continued)

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will implement a policy of verification of attendance for students in which students that have not attended by the 10th day of classes are dropped to ensure enrollment and eligibility for Title IV funds. Thereafter, on a daily basis, the Registrar's Office will inform, via email, the Business Office and the Financial Aid Office of changes in student enrollment status. A written policy pertaining to this matter is stated in the Paine College 2011 -2012 Catalog - Class Attendance, Page 43.

The College plans to implement the student Attendance module in Jenzabar during the 2012-2013 academic year to ensure that student attendance is tracked by the registrar's office, business office, and the financial aid office.

Finding 11-03

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.033, 84.038, 84.063, 84.268, 84.375, 84.379
Compliance Requirement:	Special Tests and Provisions – Return of Title IV Funds
Type of Finding:	Significant Deficiency – Internal Controls over Compliance
	Nonmaterial Noncompliance

CRITERIA:
In accordance with 34 CFR 668.22, a school is required to determine the earned and unearned Title IV aid a student has earned as of the date the student ceased attendance based on the amount of time the student spent in attendance. The institution must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines, or should have determined, that the student withdrew.

CONDITION:
We obtained a listing of all students who withdrew from the school during the 2010-2011 school year. We compared this listing to the listing of students who received federal aid during the school year. This resulted in twenty-three (23) students who withdrew from the College during the 10-11 school year who had been awarded federal financial aid. We noted that federal funds had to be returned as a result of the withdrawal of thirteen of these students. (Eight students in the sample earned more than 60% of the aid, and two students who withdrew did not receive federal financial aid in the semester from which they withdrew. Therefore, no return calculation was required for these students.) Of the thirteen students who required a refund, five refunds were not returned in the required time frame. The returns were 3, 5, 6, 356, and 356 days after the 45 day requirement.

The two returns made 356 days after the date required were made as a result of the auditor's inquiry during the testing of refunds.

We also noted that one of the severely delinquent refunds was refunded in excess of $954. Per the Refund Calculation Worksheet, the school was to return $3,464 in Plus Loans. The school returned $4,417. The difference was due by the student and the only action by the school was to notify the holders of the loan of the student's withdrawal date.

Federal Awards Findings and Questioned Costs – (continued)

QUESTION COSTS:
$10,326 – calculated as the two refunds that were not submitted to the Dept. of Education until auditor's inquiry.

CAUSE:
Student Financial Aid Office's ineffective controls over timely payments of refunds.

EFFECTS:
Federal Aid refunds are not being submitted or not submitted in a timely manner as required.

RECOMMENDATIONS:
We recommend the College develop and implement policies, procedures, and management controls to ensure that students who withdraw from school are identified, and that refunds are accurately calculated and returned timely.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will ensure that current policies, and procedure, and management controls are implemented fully via the following process. The registrar's office, business office, and the financial aid office staff will meet weekly to confirm students who have withdrawn from the college. Afterwards, they will confirm that refunds are accurately calculated and return in a timely manner in accordance with federal guidelines.

Finding 11-04

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster – Federal Direct Student Loans
CFDA:	# 84.268
Compliance Requirement:	Special Tests and Provisions - Enrollment Reporting (Direct Loan)
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

CRITERIA:
34CFR 685.309(b) **-** Student status confirmation reports.
A school shall notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who enrolled at that school but has ceased to be enrolled on at least a half-time basis, has withdrawn, or has graduated from the institution if the institution does not expect to complete its next Student Status Change Report within the next 60 days.

Schools are required to certify and report the enrollment status of students who receive Title IV aid to the National Student Loan Data System (NSLDS). This enrollment information is merged to the NSLDS database and reported to the guarantors, lenders, and servicers of student loans.

Federal Awards Findings and Questioned Costs – (continued)

A student's enrollment status determines deferment eligibility, grace periods, and repayment schedules, as well as the government's payment of interest subsidies. As such, NSLDS records must be accurately matched with enrollment records. Schools must continually review, update, and verify student enrollment statuses and other information.

Enrollment information must be reported whenever a student's attendance pattern changes. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

CONDITION:
We obtained a listing of students who withdrew from the college during the 10/11 school year and noted those students that received direct loans, which resulted in 21 students. We reviewed their "Enrollment Data" as updated on the NSLDS system per the NSLDS web-site. Of the 21 students sampled, only one of the effective status changes was updated during the required timeframe. We noted the delay in reporting for the remaining 20 withdrawn students ranged from 51 to 195 days after the student's withdrawal date. Furthermore, we also noted discrepancies between the student's withdrawal date and the effective date reported to the NSLDS. Of the 21 students who withdrew with federal loans, the effective date reported to the NSLDS for one student was 7 days later than the actual withdrawal date, and the effective date reported to the NSLDS for three students was 20, 23, and 106 earlier than the actual withdrawal date.

QUESTION COSTS:
None.

CAUSE:
Registrars Office's ineffective controls over updating student's records in a timely manner and not understanding the process of updating to the NSLDS.

EFFECTS:
Timely reporting of student status changes impacts the timeliness of establishing a repayment plan for the loan. Failure to update a student's status delays the date a student should enter repayment status for loans. As a result, the Department of Education incurs additional interest costs for subsidized loans that should be paid by the student.

RECOMMENDATIONS:
We recommend the College develop policies and procedures to ensure the Student Status Confirmation Reports are completed accurately and returned timely.

Federal Awards Findings and Questioned Costs – (continued)

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will put procedures in place to identify students who have received direct loans and monitor attendance status to ascertain if and when they drop out of school. The procedures will ensure within federal guidelines. This system will be monitored by the Office of Administrative and Fiscal Affairs.

The College will use the following process when a student wants to withdraw. The student will complete a withdrawal form. The form will include the date the student will withdraw. The information will be entered into the system and shared with the Financial Office and business offices.

The Office of the Registrar will provide student data to the NSLDS on a monthly basis. The financial Aid office will make the appropriate adjustments to any student who withdrew with federal loans so that adjustments can be made.

Finding 11-05

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster - Federal Direct Student Loans
CFDA:	# 84.268
Compliance Requirement:	Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

CRITERIA:
Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement. Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. In accordance with 34CFR685.102(b), the school is required to reconcile these files to the institution's financial records.

CONDITION:
No required monthly reconciliations between the School Account Statement (COD) and the College's financial records could be provided. There is no evidence that the College attempted to reconcile Direct Loan funds on a monthly basis. During testing of disbursements, we reviewed COD disbursement records for forty (40) sampled students. We noted two students had loans recorded as disbursed on the COD that were never drawn or disbursed to the student. These were later corrected on the COD by the Student Financial Aid Office.

QUESTION COSTS:
Because the College is not reconciling the Direct Loan disbursements to the financial records, questioned costs could not be determined.

Federal Awards Findings and Questioned Costs – (continued)

CAUSE:
The College has not implemented policies and procedures to verify that the School Account Statement data file and the Loan Detail records per the COD are reconciled to the College's financial records.

EFFECTS:
Because records from the College and Department do not match, the Department cannot accurately account for the Direct Loan funds or identify potential problems with timely disbursements or excess cash. Without proper monitoring of Direct Loan disbursements, the College risks inaccurate reporting of loans that students will be required to pay back.

RECOMMENDATIONS:
We recommend that the College develop and implement policies, procedures, and management controls to ensure that Direct Loan funds are reconciled on a monthly basis and train personnel in the reconciliation requirements of the Direct Loan Program.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will implement the following steps to ensure that the College's direct loans are reconciled to the Common Origination and Disbursement (COD) by implementing the following steps. First, the College will assign the Chief Accountant as the person responsible for the reconciliation of loans to the COD. Secondly, the reconciliation will be completed by the 10th of each month. And thirdly, the reconciliation will be reviewed and approved by the Assistant Comptroller.

Finding 11-06

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster – Federal Perkins Loan
CFDA:	# 84.038
Compliance Requirement:	Reporting, Program Management
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

CRITERIA:
34 C.F.R. § 674.19(d)(1) - An institution shall establish and maintain program and fiscal records that are reconciled at least monthly.

34 C.F.R. § 674.19(2) Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary.

34 C.F.R. § 674.5(2) - If an institution's cohort default rate equals or exceeds 50 percent for each of the three most recent years for which cohort default rate data are available the institution is ineligible to participate in the Federal Perkins Loan Program

CONDITION:
The College did not maintain proper accounting for Perkins loans. Supporting documentation did not support the amounts reported on the annual Fiscal Operations Report. In addition, the College's cohort default rate for the Perkins Loan Program exceeded 50% for each of the last three most recent years.

Federal Awards Findings and Questioned Costs – (continued)

QUESTION COSTS:
Could not be determined

CAUSE:
The College has not implemented policies and procedures to properly administer the Federal Perkins Loan program.

EFFECTS:
As a result of the cohort default rate for the Perkins Loan Program exceeding 50 percent for each of the preceeding years, the College is no longer eligible to participate in the Perkins Loan Program until June 2014.

RECOMMENDATIONS:
We recommend that the College liquidate its Perkins Loan portfolio by assigning all of its outstanding Perkins Loans to the Department of Education, return all of its federal share of the Perkins Loan revolving loan fund to the Department, as well as perform other liquidation requirements specified by the Department.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College is in process of liquidating the Perkins Loan portfolio.

Finding 11-07

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.033, 84.038, 84.063, 84.268, 84.375, 84.379
Compliance Requirement:	Administrative Capabilities
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

CRITERIA:
According to 34 C.F.R. § 668.16, to continue participation in a Title IV program, an institution must demonstrate that it is capable of adequately administering that program. An institution is considered to have administrative capability if the institution –

(a) Administers the Title IV program in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA;

(b)(1) Designates a capable individual to be responsible for administering all the Title IV, HEA programs in which it participates and for coordinating those programs with the institution's other Federal and non-Federal programs of student financial assistance;

(2) Uses an adequate number of qualified persons to administer the Title IV, HEA programs in which the institution participates. The following factors are used to determine whether an institution uses an adequate number of qualified persons—

Federal Awards Findings and Questioned Costs – (continued)

(i) The number and types of programs in which the institution participates;
(ii) The number of applications evaluated;
(iii) The number of students who receive any student financial assistance at the institution and the amount of funds administered;
(iv) The financial aid delivery system used by the institution;
(v) The degree of office automation used by the institution in the administration of the Title IV, HEA programs;
(vi) The number and distribution of financial aid staff; and
(vii) The use of third-party servicers to aid in the administration of the Title IV, HEA programs;

(3) Communicates to the individual designated to be responsible for administering Title IV, HEA programs, all the information received by any institutional office that bears on a student's eligibility for Title IV, HEA program assistance;

(4) Has written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance and the preparation and submission of reports to the Secretary;

(c)(1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls;

(2) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs.

(d)(1) Establishes and maintains records required under this part and the individual Title IV, HEA program regulations;
(i) Has provided all program and fiscal reports and financial statements required for compliance with the provisions of this part and the individual program regulations in a timely manner;
(j) Shows no evidence of significant problems that affect, as determined by the Secretary, the institution's ability to administer a Title IV, HEA program
(m)(1) Has a cohort default rate—
(iii) As defined in 34 CFR 674.5, on loans made under the Federal Perkins Loan Program to students for attendance at that institution that does not exceed 15 percent.
(n) Does not otherwise appear to lack the ability to administer the Title IV, HEA programs competently;

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Federal Awards Findings and Questioned Costs – (continued)

CONDITION:
As discussed in Findings 11-02 through 2011-06, the College had problems affecting its ability to administer the Title IV programs in accordance with regulatory requirements. Specifically, the College did not: (1) disburse aid to only eligible students, (2) calculate aid in amounts that do not exceed need, (3) return unearned Title IV aid within the required time frame, (4) properly administer the Direct Loan program, (5) report changes in student status to NSLDS, and (6) properly account for and administer the Perkins Loan program.

QUESTION COSTS:
See Findings noted above.

CAUSE:
The College lacks policies, procedures and management controls to effectively manage the Title IV programs in accordance with all statutory and regulatory requirements. Frequent staff turnover in the Business Office as well as uncorrected findings from prior audits contributed to the mismanagement.

EFFECTS:
The failure of an institution to administer a Title IV program, or to account for the funds that the institution receives under the program, could result in emergency action against the institution, a fine on the institution, or the limitation, suspension, or termination of the institution's participation in that program.

RECOMMENDATIONS:
We recommend that the College develop and implement policies, procedures, and management controls to ensure that Title IV programs are administered in accordance with all statutory and regulatory requirements.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. A collaborative process will be implemented between the Vice President of Fiscal Affairs, Comptroller, Director of Financial Aid, and Registrar to ensure the effective management of the Title IV program in accordance with all statutory and regulatory requirements. The Vice President of Fiscal Affairs will provide leadership for monthly meetings of the aforementioned parties to compare and reconcile records of all Title IV recipients. Appropriate adjustments will be made to each Title IV recipients, when appropriate.

Federal Awards Findings and Questioned Costs – (continued)

Finding 11-08

Federal Agency:	Department of Energy
Federal Program:	Office of Environmental Waste Processing
CFDA:	# 81.104
Compliance Requirement:	Allowable Costs
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

CRITERIA:

Federal grant requirements provide that labor costs charged to federal awards must reasonably reflect the actual labor effort contributed by the employee to meet the objectives of the award and that adequate documentation must be maintained to support labor costs charged to sponsored agreements. OMB Circular A-21, Cost Principles for Educational Institutions, requires after-the-fact confirmation of this labor. Charges may be made initially on the basis of estimates made before the services are performed, but the institution is required to subsequently confirm that the labor effort costs charged to an award reasonably represent the actual labor effort. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports must be signed by the employee or responsible official(s) using suitable means of verification that the work was performed.

CONDITION:

Individuals working within the program have not certified the actual time spent working within the Federal program as required by OMB. We reviewed a sample of eleven (11) payroll and payroll related expenditures funded with the Dept. of Energy's Environmental Management program. We noted six (6) sampled payroll charges were paid to a temporary personnel agency who maintained time cards authorized by the employee and the Principal Investigator as to the time worked on the project.

We noted three (3) employees were employed only during the summer and 100% of their time was funded with the grant. These employees were paid a predetermined amount for each of two months to be worked during the summer based upon a Personnel Action Form approved prior to the start of the work being performed. Only after auditor request was documentation obtained that certified that these people worked 100% of their time on the grant project.

We noted two (2) sampled personnel were charged to multiple activities during the year. Time and Effort reports were not obtained until auditor request. Furthermore, these Time and Effort Reports were certified based upon how the employee worked, or was budgeted to work, but did not correspond to how their pay was expensed. These individuals are paid an institutional salary. Any work on the grant is "in addition" to this pay and funded with the grant. The additional pay is based upon their institutional salary and their committed effort. For example, if the individual committed to devote 15% of their time on the grant project during the academic year, they received 100% of their institutional pay charged to non-sponsored funds during this time as well as additional compensation charged to and funded with the grant.

QUESTION COSTS:

$238,009 calculated as Salaries, Benefits and Indirect Costs charged to the grant for all personnel not paid through the temporary staffing agency or who were employed only for the summer program.

Federal Awards Findings and Questioned Costs – (continued)

CAUSE:
Management was unaware of the requirements to adequately support payroll charges with after-the fact certification of time spent on the federal program.

EFFECTS:
A significant amount of the Federal expenditures related to this program is derived from payroll costs. While the salaries appear to be reasonable and necessary for the program objectives, the College did not provide required supporting documentation as outlined in the A-21 Circular. Further, there does not appear to be adequate policies and procedures necessary to support that the College has controls over compliance objectives.

Lack of required effort certifications may result in the federal funds being expended for unallowable purposes. Such costs may be considered unallowable and be subject to repayment.

RECOMMENDATIONS:
We recommend the College implement policies and procedures for periodic certifications of personnel activity to ensure documentation exists to substantiate the after-the-fact confirmation of personnel costs charged to federal grants and that such documentation is in compliance with OMB A-21 requirements.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. Time and effort certification procedures are now in place and management will ensure they are performed on a regularly scheduled basis in accordance with OMB Circular A-21. Additionally, a solution has been developed regarding a more manageable system for documenting effort of 100% summer only employees. Grant Primary Investigator is responsible for all effort certification and the Office of Sponsored Programs will oversee the process to its completion. Written policies governing these matters are stated in Paine Policy Manual – Volume II – Community Policies – Section 2.5.3.4.

Finding 11-09

Federal Agency:	Department of Energy
Federal Program:	Office of Environmental Waste Processing
CFDA:	# 81.104
Compliance Requirement:	Activities Allowed/Allowable Costs
Type of Finding:	Significant Deficiency – Internal Controls over Compliance Nonmaterial Noncompliance

CRITERIA:
OMB Circular A-21, Cost Principles for Educational Institutions, requires costs charged to sponsored programs be adequately documented. It further states that if the institution authorizes the principal investigator or other individual to have primary responsibility, for the management of sponsored agreement funds, then the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal investigator or designee or use of a password) will normally be considered sufficient.

Federal Awards Findings and Questioned Costs – (continued)

CONDITION:
In our sample of forty (40) expenditures, the College could not provide any documentation for two (2) expenditures (totaling $717.50) in order for the auditors to test compliance with any compliance requirements, including if the Activity and /or the Cost was allowable. For another transaction, though support was provided, there was no authorization from the Principal Investigator to charge the expenditure to the grant ($245).

QUESTION COSTS:
$962.50 calculated as the amount of sampled transactions for which proper support, including authorization of the charge, could be provided.

CAUSE:
Significant turn-over in the business office and inadequate controls over filing support resulted in the inability of the College to locate selected items.

EFFECTS:
Lack of supporting documentation and proper approval to charge the grant may result in the federal funds being expended for unallowable purposes. Such costs may be considered unallowable and be subject to repayment.

RECOMMENDATIONS:
We recommend the College implement policies and procedures for periodic certifications of personnel activity to ensure documentation exists to substantiate the after-the-fact confirmation of personnel costs charged to federal grants and that such documentation is in compliance with OMB A-21 requirements.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College has since strengthened its procedures to ensure that the principle investigator must provide written authorization before a charge can be made to an assigned grant. Additionally, the Comptroller must ensure that appropriate documentation is provided before any disbursement of funds.

Finding 11-10

Federal Agency:	Department of Energy
Federal Program:	Office of Environmental Waste Processing
CFDA:	# 81.104
Compliance Requirement:	Allowable Costs
Type of Finding:	Significant Deficiency – Internal Controls over Compliance Nonmaterial Noncompliance

CRITERIA:
OMB A-21 G. - Determination and application of F&A cost rate - states that if a provisional rate is not replaced by a predetermined or fixed rate prior to the end of the institution's fiscal year, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved.

Federal Awards Findings and Questioned Costs – (continued)

The grant budget, which was incorporated into the grant award, notes the indirect cost base to include salaries only. Fringe benefits are not included in this base.

CONDITION:
During FY 2011, the College began expensing indirect costs to the grant. Indirect costs that were not claimed for FY 2010 direct costs as well as indirect costs for ten (10) of the twelve (12) months in FY 2011 were expensed and drawn using the 2007 provisional rate. In addition, the base used to calculate these indirect cost expenditures, however, included unallowable fringe benefit costs.

Furthermore, according to OMB Circular A-21, salary and wages must be supported with after the fact certifications of personnel time and effort reports for employees working on the program. The College does not maintain these time and effort reports. As a result, we considered all costs claimed by the College for personnel working on more than one program as unallowable personnel costs. These unallowable personnel costs were included in the indirect cost calculations.

QUESTION COSTS:
Could not be determined. If the 2007 provisional indirect cost rate is accepted, then there are no questioned costs related to the fringe benefits included in the direct cost base due to two (2) months indirect cost calculations were not performed. See Finding 11-08 above where indirect costs associated with questioned payroll costs are questioned.

CAUSE:
Provisional indirect cost rate was not based on the actual allowable costs incurred for the period involved. In addition, the rate was applied to a cost base that included fringe benefits, even though fringe benefits were specifically to be excluded from the base amount per the grant proposal.

EFFECTS:
Using an incorrect indirect cost rate as well as using a direct cost base with unallowable costs could result in questioned costs and be subject to repayment.

RECOMMENDATIONS:
We recommend the College obtain an approved fixed indirect rate. We also recommend the College strengthen its controls over ensuring only allowable direct costs are included in the base used to calculate indirect costs.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will ensure that fringe is not included in future calculations of indirect costs.

Finding 11-11

Federal Agency:	Department of Energy
Federal Program:	Office of Environmental Waste Processing
CFDA:	# 81.104
Compliance Requirement:	Procurement
Type of Finding:	Material Weakness – Internal Controls over Compliance

Federal Awards Findings and Questioned Costs – (continued)

CRITERIA:
2 CFR 215.40 – 215.48 sets forth the procurement standards that must be used by recipients expending federal funds. The code states that all procurement transactions must be conducted in a manner to provide, to the maximum extent practical, open and free competition. Procurement records and files for purchases in excess of the small purchase threshold ($25,000) shall include the following at a minimum:
(a) Basis for contractor selection;
(b) Justification for lack of competition when competitive bids or offers are not obtained; and
(c) Basis for award cost or price.

CONDITION:
The College's Policy Manual requires purchases in the amount of $3,000 to $5,000 obtain 2 competitive quotes or justify in writing why 2 quotes could not be obtained. For purchases in excess of $5,000, 3 competitive quotes must be obtained or justify in writing why 3 quotes could not be obtained. For sole source purchases, justification must be given as to why it is not possible to obtain competitive bids.

We sampled forty (40) expenditures noting one was for a purchase in excess of $3,000 and one was for a purchase in excess of $5,000. Both purchases obtained only one quote and there was no justification for the sole source. Subsequent to the audit procedures being performed, the College was able to obtain sole source documentation to support the costs charged to the program.

CAUSE:
The College does not adhere to its procurement policies related to competitive pricing for purchases in excess of its policies' thresholds.

EFFECTS:
Failure to implement adequate internal controls related to procurement could result in favoritism and cast doubts on the integrity and impartiality of the purchasing process.

RECOMMENDATIONS:
We recommend the College ensure that its personnel, especially those who are responsible for making procurement decisions, are aware of and comply with all federal purchasing rules and regulations as well as the College's own procurement policies.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will ensure that future equipment procurements follow the College's policy and Federal regulations. These policies will be disseminated from the Office of Sponsored Programs to all parties responsible for making procurement decisions.

Finding 11-12

Federal Agency:	Department of Energy
Federal Program:	Office of Environmental Waste Processing
CFDA:	# 81.104
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness – Internal Controls over Compliance Material Noncompliance

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Federal Awards Findings and Questioned Costs – (continued)

CRITERIA:
Recipients of federal funds have certain reporting requirements that must be met to ensure that use of the funds are monitored and properly reported at the federal level. Per the grant award, the Environment Management Program requires quarterly Financial Status Reports. These reports are due within 30 days after the end of the reporting period.

CONDITION:
No financial reports had been filed until auditor request to see the reports. At that time, reports for periods ending 06/30/10, 09/30/10, 12/31/10, 03/31/11, 06/30/11, and 09/30/11 were all completed and submitted on 11/17/11.

QUESTION COSTS:
N/A

CAUSE:
The College did not have controls in place to ensure reporting requirements were met.

EFFECTS:
A violation or failure to comply with Federal laws and regulations may result in the Federal agency withholding payments to the College, withholding approval of further grants with the College, and any other action deemed necessary to gain compliance.

RECOMMENDATIONS:
We recommend the College's grant manager be involved in the compliance management of all College grants that are managed by departments that do not have a financial director. The grants manager should maintain a copy of the grant application, award, and all applicable agency requirements, including reporting requirements. The grants manager should ensure all reporting is done in a timely manner, as well as reconcile the financial reports to the College's general ledger prior to their submission.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
The College concurs. The College will immediately begin to increase the responsibility of financial compliance to include not only the grants financial manager, but also the Office of Sponsored Programs. This will serve as a check and balance process to ensure that reporting is done in a timely manner. Additionally, the Office of Sponsored Programs will be given immediate access to the College's general ledger.

PAINE COLLEGE

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Findings in Relation to the Audit of the Financial Statements

Finding 10-FS-01
CRITERIA:
A properly designed internal control structure includes internal controls over the preparation of financial statements in accordance with generally accepted accounting principles.

CONDITION:
The auditor proposed significant adjustments to the College's accounts, so that the financial statements comply with generally accepted accounting principles ("GAAP"). The adjustments noted during the audit indicates a deficiency in the internal control process, as it is evidence that the errors were not detected by the College's internal control system. Specifically, these deficiencies resulted from ineffective policies and procedures over the College's financial reporting in accordance with generally accepted accounting principles.

CAUSE:
The College did not have sufficient resources devoted to financial reporting nor personnel with the appropriate financial reporting knowledge level in order to properly prepare and review financial statements in accordance with generally accepted accounting principles.

EFFECT:
The result of the audit included a significant number of adjusting journal entries required to correct errors noted during the audit. The auditor also had to compile a significant amount of information for the required disclosures in the financial statements.

RECOMMENDATION:
We recommend that management consider the cost-benefit analysis of the preparation of its financial statements in accordance with GAAP. We also recommend that management continue the training and supervision of its finance and accounting staff in order to reconcile all balance sheet accounts to supporting documentation on a timely basis.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
Management concurs with finding and has hired additional personnel with experience in accounting and financial reporting in the Controller's Office. Under the direction the Controller, the Assistant Controller and Chief Accountant are responsible for financial reporting to include assisting with the preparation of financial statements. The College has also hired a seasoned Vice President for Administrative and Fiscal Affairs/Chief Financial Officer with over 30 years of experience in the business and finance area within the college and university environment. The VPAFA/CFO has re-structured the Controller's Office and provides guidance and direction to the Controller's Office staff. In the future, the Controller will coordinate efforts in preparing the financial statements in conjunction with the VPAFA/CFO.

The Controller has posted all adjusting journal entries to the general ledger recommended by the auditors. The Controller is in the process of reconciling the general ledger to the auditor's financial statements grouping report. This will ensure that the general ledger reconciles to the audited financial statements for year ended June 30, 2010. Report generator has been used to create financial statements in the Jenzabar System. These statements are in the same format as the audited financial statements. The Controller will ensure that the automated financial statements reconciles to the audited financial statements.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Findings in relation to the Audit of the Financial Statements – (continued)

CURRENT STATUS:
Repeat finding. See current year finding 11-FS-01. Management is continuing to devote resources and training to appropriate staff in order to improve its policies and procedures over financial reporting in accordance with generally accepted accounting principles.

Finding 10-FS-02
CRITERIA:
A properly designed internal control structure related to donor contributions includes detailed reporting and reconciling of contributions. An entity should record contributions with the appropriate restrictions, and maintain that information on an ongoing basis, so that as restrictions are met, the appropriate transfer of assets can be recorded and disclosed.

CONDITION:
The auditor noted the accounting department does not maintain information related to restricted contributions, nor reconciles donor information to the amounts recorded in the general ledger. The College does not maintain a detail of the endowment contributions sufficient to record transactions consistent with donor intent or prepare the required financial statement disclosures.

CAUSE:
The College does not have proper accounting procedure and controls in place to ensure that donor restricted contributions are properly tracked or spent for the purpose the donor's intended.

EFFECT:
The auditor had to make significant changes to the College's schedule of endowment contributions to record transactions consistent with donor intent, which resulted in material audit adjustments.

RECOMMENDATION:
We recommend that management prepare and maintain a schedule of contributions by donor including intended time and purpose restrictions. We also recommend that this schedule be reconciled to the investment activity, and be used to ensure amounts are properly recorded on the general ledger. The schedule should also include sufficient information to allow for the preparation of the required financial statement disclosures.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
Management concurs with finding and has implemented processes and procedures to address finding. A definition or criteria has been defined and approved for the establishment of an endowment. If the Vice President for Institutional Advancement (VPIA) or designee is unsure of the funds designation, the VPIA and Vice President for Administrative Affairs/VPAFA will meet to resolve the matter.

The staff of the Development and Institutional Advancement Offices attended Jenzabar Alumni/Development module training on November 9-11, 2010. The training provided the staff the opportunity to learn about many features of the module; to include but not limited to tracking and recording contributions, maintaining donor's profile and restriction and other pertinent information related to the contribution. Details of contributions/donations are maintained in the Development module and cash receipts are posted to general ledger.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Findings in relation to the Audit of the Financial Statements – (continued)

To better manage endowed and designated scholarships funds, a separate general ledger account will be created for each endowment and scholarship. The fund balance recorded on the audited Endowment and Scholarships Schedule as of 6/30/2010 will be entered in the general ledger. The interface between the general ledger and Development Module will be activated to post cash proceeds to the general ledger to avoid double entry. The posting of cash receipts will be automated.

The Controller's Office is responsible for reconciling endowed funds and investment activity to the general ledger.

CURRENT STATUS:
Finding was materially corrected. A spreadsheet system was maintained to track contributions to the endowment during 2011.

Federal Awards Findings and Questioned Costs

Finding 10-01

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.032, 84.033, 84.038, 84.063, 84.268
Compliance Requirement:	Special Tests and Provisions – Return of Title IV Funds
Type of Finding:	Significant Deficiency – Internal Controls over Compliance

CONDITION:
A school is required to determine the earned and unearned Title IV aid a student has earned as of the date the student ceased attendance based on the amount of time the student spent in attendance. The institution must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines, or should have determined, that the student withdrew.

We obtained Paine College's Withdrawal Policy noting that the policy states that students who wish to withdraw from the school must complete a withdrawal form from the Registrar's Office and gain approval from the Registrar's Office. Signatures of the Retention Coordinator, Dean of Students, Director of Financial Aid, Director of Fiscal Affairs, VP of Academic Affairs, Registrar, as well as the Student are also required. The withdrawal form must be filed in the Registrar's Office. The yellow copy of the Withdrawal Form is sent to the Financial Aid Office, and the Original is retained by the Registrar's Office.

We sampled six students who withdrew from the College during the 2009-2010 school year who had been awarded federal financial aid. Of these six students, five required a refund of Title IV funds. Three of the students' unearned aid was returned within the 45 day requirement to return the funds. One of these five students withdrew on August 18, 2009, for whom the unearned aid was refunded to the Department of Education on September 26, 2010. Another student withdrew on February 10, 2010, for whom a portion of the unearned aid was refunded to the Department of Education on April 24, 2010, with the remaining aid refunded on April 30, 2010. Each of these refunds occurred after the 45 day requirement to return the funds. Funds not being returned in a timely manner were noted in the previous years as well.

Federal Awards Findings and Questioned Costs – (continued)

CRITERIA:
34 CFR 668.22(j) Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Furthermore, in accordance with 34CFR668.173(c) the institution does not comply with the reserve standard if, in the sample of student records audited or reviewed that the institution did not return unearned Title IV funds, 5% or more of the students in the sample did not return unearned funds in a timely manner.

EFFECTS:
Federal Aid refunds not being submitted or not submitted in a timely manner as required.

QUESTION COSTS:
N/A. All funds were returned.

CAUSE:
Student Financial Aid Office's ineffective controls over the timely payments of refunds.

RECOMMENDATIONS:
Financial Aid Office should maintain a log of withdrawal notices that they are required to be signed and follow-up should be made to ensure forms are received back for processing. Processing of refunds should be done as soon as possible after the Student Financial Aid Office insures the student has withdrawn.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
Management concurs with finding and has implemented processes and procedures to address finding. Students who officially withdraw are updated on the degree tab of the Registration Module assigning an exit reason for student withdrawing from the College. The Registrar forwards a copy of the completed withdrawal form to the Financial Aid Office, Controller's Office and Residence Life Office. An official withdrawal listing is generated by the Registrar's Office and circulated to the Financial Aid Office, Controller's Office and Residence Life Office**.** These offices have been given access to print the Student Withdrawal Report from the Jenzabar System. Additionally, the Registrar has reviewed the current withdrawal policy with the Record's Office staff to ensure that withdrawals are processed timely and accurately.

The Chief Accountant enters the student withdrawal information in the DOE System to calculate the R2T4 information and e-mail calculation worksheet to the Director, Financial Aid and Manager, Student Financial Services and cc: the Controller, Assistant Controller and VPAFA. The Office of Student Financial Services staff makes the appropriate adjustments to the students account based upon the date of withdraw. The Director, Financial Aid enters the R2T4 refund information in the Powerfaid System to adjust student account for unearned aid. The Director, Financial Aid attaches all supporting documentation to student's withdrawal form and place in student's folder**.** The Chief Accountant runs the Student Withdrawal Report from Jenzabar (Info Maker) and DOE R2T4 Report to reconcile reports.

CURRENT STATUS:
Finding has not been corrected. See current year Finding 11-03.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Federal Awards Findings and Questioned Costs – (continued)

Finding 10-02

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.032, 84.033, 84.038, 84.063, 84.268
Compliance Requirement:	Special Tests and Provisions – Student Status Changes
Type of finding:	Material Weakness – Internal Controls over Compliance

CONDITION:
We obtained a listing of students who withdrew from the college during the 2009/2010 school year from the Registrar's Office. We were unable to test the completeness of the Withdrawal listing provided.

We selected a sample of six students from the listing of withdrawn students and reviewed their "Enrollment Data" as updated on the NSLDS system per the NSLDS web-site. All six of the students had direct loans that required their Enrollment Date in NSLDS to be updated. Two of the six students withdrew on September 18, 2009. Their enrollment data was updated on January 28, 2010, after the required time frame. Another student withdrew on November 9, 2009. This student's enrollment data was updated on March 16, 2010, also after the required time frame. The remaining three students withdrew on January 25, 2010, February 10, 2010 and March 29, 2010. Their enrollment date was updated on May 19, 2010. The first two students updated on this date were not updated within the required time frame.

CRITERIA:
34CFR 685.309 (b) *Student status confirmation reports.*
A school shall notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who enrolled at that school but has ceased to be enrolled on at least a half-time basis, has withdrawn, or has graduated from the institution if the institution does not expect to complete its next Student Status Change Report within the next 60 days.

Schools are required to certify and report the enrollment status of students who receive Title IV aid to the National Student Loan Data System (NSLDS). This enrollment information is merged to the NSLDS database and reported to the guarantors, lenders, and servicers of student loans. Enrollment information must be reported whenever a student's attendance pattern changes. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

EFFECTS:
A student's enrollment status determines deferment eligibility, grace periods, and repayment schedules, as well as the government's payment of interest subsidies. As such, NSLDS records must be accurately matched with enrollment records. Schools must continually review, update, and verify student enrollment statuses and other information. Timely reporting of student status changes impacts the timeliness of establishing a repayment plan for the loan.

QUESTION COSTS:
N/A

Federal Awards Findings and Questioned Costs – (continued)

CAUSE:
The Registrar's Office did not understand the process of updating to the NSLDS. This resulted in ineffective controls over updating student's records in a timely manner.

RECOMMENDATIONS:
We recommend the Registrar's Office implement procedures and controls to insure student status changes are accurately updated in the Registrar's system before it is batched and submitted to the NSLDS. These student status changes include all changes in a student's status as a result of increase/decrease in hours, withdrawals from the institution, or graduations.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
Management concurs with finding and has implemented processes and procedures to address finding. The process of updating withdrawals as well as graduates in the Jenzabar System has been instituted. The Registrar Office staff has been trained on requirements and the timely updating of NSLDS. Staff has a greater understanding on reporting enrollment status changes to NSC. The Registrar's Office now understands that first-of-term, mid-term, end-of-term and summer transmissions must be made in accordance with the schedule submitted to NSC. Additional submissions have also been added to the schedule such as a graduate only submission which was processed on May 11, 2010. Additionally, once entered, a part-time/full-time enrollment update is run to ensure accuracy before enrollment data is prepared and transmitted. Moreover, reports are also being reviewed before submission to reduce the incidence of errors.

CURRENT STATUS:
Finding not corrected. See current year Finding 11-04.

Finding 10-03

Federal Agency:	Department of Education
Federal Program:	Student Financial Aid Cluster
CFDA:	# 84.007, 84.032, 84.033, 84.038, 84.063, 84.268
Compliance Requirement:	Eligibility
Type of finding:	Significant Deficiency – Internal Controls over Compliance

CONDITION:
We sampled the financial aid packaging for 40 students who received federal financial aid during the 2009-2010 school year. Of those sampled, we noted one student who was over awarded federal aid. An over award is created when the student's aid package exceeds the student's need. The student in question received scholarship money on October 29, 2009 that was not considered by the financial aid office. An over-award was noted in the prior year.

CRITERIA:
34 CFR§ 685.303 (e) Treatment of excess loan proceeds.
Before the disbursement of any Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan proceeds, if a school learns that the borrower will receive or has received financial aid for the period of enrollment for which the loan was intended that exceeds the amount of assistance for which the student is eligible

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

(except for Federal Work-Study Program funds up to $300), the school shall reduce or eliminate the over award by either--

(1) Using the student's Direct Unsubsidized, Direct PLUS, or State-sponsored or another non-Federal loan to cover the expected family contribution, if not already done; or
(2) Reducing one or more subsequent disbursements to eliminate the over award.

EFFECTS:
Failure to include all the students aid received in the calculation of the student financial need could result in Federal Aid being over award.

QUESTION COSTS:
$713 was awarded in a scholarship which exceeded the student's financial need.

CAUSE:
The student was awarded a scholarship on October 29, 2009. When the scholarship was received by the business office, it was not communicated to the financial aid office as a result the aid was not considered when calculating the student's financial need.

RECOMMENDATIONS:
We recommend the Financial Aid office implement policies and procedures to ensure all the students' aid is considered when calculating a student's financial to ensure the student is not over-awarded federal aid.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:
Management concurs with finding and has implemented processes and procedures to address finding. The Office of Student Financial Services has been directed to forward all scholarship checks and supporting documentation to the Development Office and a copy to the Financial Aid Office. The Office of Student Financial Services will retain a copy all documents pertaining to the scholarship. A need analysis is performed each time a financial aid award is amended. An Over-award Report is printed and reviewed weekly to identify potential over-awards.

CURRENT STATUS:
Finding not corrected. See current year Finding 11-02.