



THE REED INSTITUTE

Independent Auditors' Report in
Accordance with OMB Circular A-133

June 30, 2008

(With Independent Auditors' Report Thereon)

THE REED INSTITUTE

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**Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees
The Reed Institute
Portland, Oregon:

Compliance

We have audited the compliance of The Reed Institute with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2008, except the requirements discussed in the second paragraph of this report. The Reed Institute'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 The Reed Institute's management. Our responsibility is to express an opinion on The Reed Institute's compliance based on our audit.

We did not audit The Reed Institute's compliance with the requirements governing maintaining contact with and billing borrowers under the Federal Perkins Loan Program. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS's compliance with the requirements governing the functions that it performs for The Reed Institute for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS's compliance with such requirements.

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 Nonprofit 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 described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Reed Institute'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 The Reed Institute's compliance with those requirements.

In our opinion, The Reed Institute complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

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

Requirements governing maintaining contact with and billing borrowers under the Federal Perkins Loan Program in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ACS. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS's internal control over compliance related to such functions.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of The Reed Institute as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken 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 Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the audit committee, board of trustees, management of The Reed Institute, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 10, 2008

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Student Financial Aid Cluster:		
Department of Education:		
Direct programs:		
PELL grant	84.063	\$ 608,466
Perkins loans	84.038	363,692
Federal work study	84.033	134,056
Supplemental education opportunity grant	84.007	258,849
Academic Competitiveness Grant	84.375	57,150
National Smart Grant	84.376	44,000
Total Student Financial Aid Cluster		<u>1,466,213</u>
Research and Development Cluster:		
National Science Foundation:		
RUI – Telomere Function and Dysfunction in Vivo	47.074	106,115
RUI – Char of Glut S-trans fr Nit-fixing Root Nodules	47.074	146,479
Prog to Retain Prom Undergrad Math/Sci Majors	47.076	31,254
Total National Science Foundation		<u>283,848</u>
Department of Energy:		
University reactor share program	81.114	12,260
Total Department of Energy		<u>12,260</u>
National Institutes of Health:		
Reinforced Variability and Operant Behavior	93.242	159,951
Cognitions in Youth Substance Use Relapse Context	93.279	118,605
Mech for Env & Genetic Rev of Gender Biased Behavior	93.859	4,012
Studies of Manganese Binding Regulatory Proteins	93.859	49,366
Genetics of Barley	93.859	66,469
Total National Institute of Health		<u>398,403</u>
Total research and development cluster		<u>694,511</u>
Total expenditures of federal awards		<u>\$ 2,160,724</u>

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

June 30, 2008

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes all federal grants received by The Reed Institute which had activity during the year ended June 30, 2008. This schedule has been prepared on the accrual basis of accounting.

(2) Loan Program Administration

The Reed Institute administers the following loan program:

	<u>CFDA number</u>		<u>Outstanding balance at June 30, 2008</u>
Perkins loans	84.038	\$	3,760,751

(3) Federal Family Education Loan Program (FFELP)

During the fiscal year ended June 30, 2008, The Reed Institute processed the following amount of new loans under the FFELP (which includes Stafford Loans, and Parents' Loans for Undergraduate Students):

	<u>CFDA number</u>		<u>Amount</u>
Stafford loans	84.032	\$	2,117,193
Parents' loans for undergraduate students	84.032		<u>2,347,616</u>
Total		\$	<u><u>4,464,809</u></u>

(4) Administrative Costs

The amount of Perkins loans disbursements shown on the Schedule of Expenditures of Federal Awards includes the current year administrative cost allowance of \$42,104.

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Schedule of Findings and Questioned Costs
Year ended June 30, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant Deficiencies in internal control were disclosed by the audit of the financial statements:
Yes

Material weaknesses: **No**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Significant Deficiencies in internal control over major programs: **None reported**

Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to reported under Section 510(a) of OMB Circular A-133: **No**
- (g) Major program: **Student Financial Aid Cluster**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$301,941**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes (See Item 08-01 on page 7)

(3) Findings and Questioned Costs Relating to Federal Awards: No

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Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item 08-01: Statement of Cash Flows

In performing our audit of the financial statements, we noted certain misstatements in the initial draft of the statement of cash flows that were more than inconsequential that were not prevented or detected in the College's internal controls as part of their normal review process. Specifically;

- The College refinanced certain prior borrowings during fiscal year 2008 that were not presented gross on the face of the cash flows statement. There was no net impact to cash flows from financing activities, however, proceeds from long-term borrowings and repayments of long-term borrowings should have been presented at their gross amounts.
- The College presents contributions restricted for long-term investment as a reconciling item in arriving at net cash flows used in operating activities. The draft statement of cash flows overstated this reconciling item due to the inclusion of amounts allocated to the College's quasi-endowment funds during the year. As the quasi-endowment amounts are not as a result of external donor restrictions, they should not be included in this amount.

Views of Responsible Officials:

Management is aware of these matters and is committed to further improving the review control over the statement of cash flows for the types of matters listed above. Additionally, management plans to critically review any significant new or unusual transactions that occur in coming years and specifically consider their implications on the statement of cash flows.