



THE REED INSTITUTE

Independent Auditors' Report in Accordance with
the Uniform Guidance for Federal Awards

Year Ended June 30, 2018

THE REED INSTITUTE

Table of Contents

	Page
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
Schedule of Findings and Questioned Costs	5



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**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal
Awards Required by the Uniform Guidance**

The Board of Trustees
The Reed Institute:

Report on Compliance for Each Major Federal Program

We have audited the Reed Institute's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2018. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the Reed Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



Report on Internal Control over Compliance

Management of the Reed Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 College's internal control over compliance.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Reed Institute as of and for the year ended June 30, 2018, and have issued our report thereon dated October 8, 2018, which contained an unmodified opinion on those financial statements. 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 the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

KPMG LLP

October 8, 2018

THE REED INSTITUTE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Grant identifying number	Pass-through entity	Total Federal expenditures
Student Financial Assistance Cluster:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007			\$ 209,939
Federal Work-Study Program	84.033			161,124
Federal Perkins Loan Program	84.038			3,318,483
Federal Pell Grant Program	84.063			959,903
Total Student Financial Assistance Cluster				<u>4,649,449</u>
Direct Loans	84.268			4,898,557
Total Student Federal Aid Cluster				<u>9,548,006</u>
Research and Development Cluster:				
USDA				
Agriculture & Food Research Initiative	10.310	2015-67023-23001	Virginia Tech	2,828
Agriculture & Food Research Initiative	10.310	2016-67019-25185	UC Santa Cruz	26,223
Total USDA - CFDA 10.310				<u>29,051</u>
National Oceanic & Atmospheric Association				
Climate and Atmospheric Research	11.431	NA130AR4310070		280
Total National Oceanic & Atmospheric Association CFDA 11.431				<u>280</u>
National Institute of Standards and Technology				
Science, Technology, Business, and/or Education Outreach	11.620	70NANB18H085		5,500
Total National Institute of Standards and Technology CFDA 11.620				<u>5,500</u>
National Science Foundation:				
Mathematical & Physical Sciences	47.049	DMS-1406327		26,513
Mathematical & Physical Sciences	47.049	DMS-1709302		59,807
Mathematical & Physical Sciences	47.049	DMS-1722545		30,000
Subtotal CFDA 47.049				<u>116,320</u>
Geosciences	47.050	AGS-1762106		14,992
Subtotal CFDA 47.050				<u>14,992</u>
Biological Sciences	47.074	IOS-1550957		6,733
Biological Sciences	47.074	IOS-1456486		191,525
Biological Sciences	47.074	MCB-1150213		218,559
Biological Sciences	47.074	MCB-1716964		51,124
Biological Sciences	47.074	DBI-1750981		1,368
Biological Sciences	47.074	DEB-1257522	Cornell University	1,546
Subtotal CFDA 47.074				<u>470,855</u>
Social, Behavioral, and Economic Sciences	47.075	SES-1528190		20,683
Social, Behavioral, and Economic Sciences	47.075	SES-1727458		6,335
Subtotal CFDA 47.075				<u>27,018</u>
Education and Human Resources	47.076	DUE-1154004		99,419
Subtotal CFDA 47.076				<u>99,419</u>
Total National Science Foundation				<u>728,604</u>
National Institutes of Health:				
Oral Diseases and Disorders Research	93.121	2R01DE014711-10	Middlebury	3,601
Extramural Research Programs in the Neurosciences	93.853	1R15NS091977-01		136,021
Allergy, Immunology and Transplantation Research	93.855	1R21AI115193-01		55,123
Biomedical Research and Research Training	93.859	1R15GM126462-01		78,034
Vision Research	93.867	1R15EY023745-01		121,753
Total National Institute of Health				<u>394,532</u>
Total Research and Development Cluster				<u>1,157,967</u>
Total expenditures of federal awards				<u><u>10,705,973</u></u>

See accompanying notes to schedule of expenditures of federal awards.

THE REED INSTITUTE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Reed Institute (the College) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The College has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Federal Student Loan Programs – Perkins Loans

The federal student loan programs listed subsequently are administered directly by the College, and balances and transactions relating to these programs are included in the College’s basic financial statements. Loans outstanding at the beginning of the year of \$3,180,736, loans made during the year of \$107,743, and administrative costs of \$30,004 are included in the total federal expenditures presented in the Schedule of \$3,318,483. The balance of loans outstanding at June 30, 2018 consists of:

	<u>CFDA number</u>	<u>Outstanding balance at June 30, 2018</u>
Perkins loans	84.038	\$ 2,701,588

Congress did not renew the Federal Perkins Loan Program after September 2017, and the transition period permitting disbursements ended on June 30, 2018. Institutions have the option to either continue to service the outstanding loans and remit excess cash periodically to the Department of Education or liquidate the portfolio, which would include assigning remaining loans to the federal government and forfeiting the institution’s remaining net assets (institutional capital contribution). The College intends to continue servicing the outstanding Perkins loans.

THE REED INSTITUTE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(5) Federal Direct Loans

During the year ended June 30, 2018, the College processed the following amount of new loans under the Federal Direct Loan program (which includes Stafford Loans and Parents' Loans for undergraduate and graduate students):

	<u>CFDA number</u>	<u>Outstanding balance at June 30, 2018</u>
Direct loans	84.268	\$ 3,123,961
Direct loans for graduate students	84.268	526
Direct parents' loans for undergraduate students	84.268	<u>1,774,070</u>
Total		<u>\$ 4,898,557</u>

THE REED INSTITUTE
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
Material weaknesses: **No**
Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
Material weaknesses: **No**
Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
Student Financial Assistance Cluster – CFDA Nos. 84.007, 84.033, 84.038, 84.063, and 84.268
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None