



**THE REED INSTITUTE**

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

Year ended June 30, 2013

(With Independent Auditors' Report Thereon)

**THE REED INSTITUTE**  
**OMB Circular A-133 Report**

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**Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

The Board of Trustees  
The Reed Institute:

**Report on Compliance for Each Major Federal Program**

We have audited the Reed Institute'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 the Reed Institute's major federal programs for the year ended June 30, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Reed Institute'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Reed Institute'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 each of its major federal programs for the year ended June 30, 2013.



### ***Other Matters***

We did not audit the Reed Institute's compliance with the requirements governing maintaining contact with and billing borrowers in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions 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, 2013 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.

### **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 Reed Institute'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 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 the Reed Institute's 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 related to such functions for the year ended June 30, 2013 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 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. However, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Reed Institute as of and for the year ended June 30, 2013, and have issued our report thereon dated October 11, 2013, 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 OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*KPMG LLP*

Portland, Oregon  
October 24, 2013

**THE REED INSTITUTE**  
 OMB Circular A-133 Report  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2013

Federal CFDA number	Federal agency / Federal Program name	Type of award	Federal Program #	Pass-through entity	Federal expenditures
Student Financial Assistance Cluster:					
Department of Education:					
84.007	Federal Supplemental Educational Opportunity Grants	Direct Award			\$ 209,939
84.033	Federal Work-Study Program	Direct Award			156,289
84.038	Federal Perkins Loan Program	Direct Award			608,311
84.063	Federal Pell Grant Program	Direct Award			1,105,297
	Total Student Financial Assistance Cluster				<u>2,079,836</u>
Research and Development Cluster:					
National Institute of Standards and Technology					
11.609	Measurement and Engineering Research and Standards	Direct Award	70NANB13H060		8,886
	Total National Institute of Standards and Technology				<u>8,886</u>
Department of Defense					
Air Force Office of Scientific Research					
12.800	Air Force Defense Research Sciences Program	Pass-through Award	FA9550-12-1-0046	UC San Diego	1,091
Defense Advanced Research Projects Agency					
12.910	Research and Technology Development	Pass-through Award	N66001-09-1-2025	UC San Diego	67,649
	Total Department of Defense				<u>68,740</u>
National Science Foundation:					
47.041	Engineering Grants	Direct Award	CMMI-1156543		47,434
47.074	Biological Sciences	Direct Award	MCB-1150213		54,916
47.074	Biological Sciences	Direct Award	DEB-1021582		93,497
47.074	Biological Sciences	Direct Award	IOS-0818957		52,109
47.074	Biological Sciences	Pass-through Award	DEB-1257522	Cornell University	5,744
47.076	Education and Human Resources	Pass-through Award	DUE-1022574	American Institute of Mathematics	1,620
47.075	Social, Behavioral, and Economic Sciences	Direct Award	SBE-0915725		28,665
47.076	Education and Human Resources	Direct Award	DUE-1154004		3,865
	Total National Science Foundation				<u>287,850</u>
Environmental Protection Agency					
66.509	Science To Achieve Results (STAR) Research Program	Direct Award	RD-83539901-0		96,793
	Total Environmental Protection Agency				<u>96,793</u>
National Institutes of Health:					
93.273	Alcohol Research Programs	Pass-through Award	2R01AA012171-11A1	UC San Diego	92,802
93.279	Drug Abuse and Addiction Research Programs	Direct Award	1R01DA026127-01A1		233,318
93.855	Allergy, Immunology and Transplantation Research	Pass-through Award	1R01A1081528	University of Buffalo	63,646
93.859	Biomedical Research and Research Training	Direct Award	1R15GM080727-01A1		49,227
	Total National Institute of Health				<u>438,993</u>
	Total Research and Development Cluster				<u>901,262</u>
	Total expenditures of federal awards				<u>\$ 2,981,098</u>

See accompanying notes to schedule of expenditures of federal awards.

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 Notes to Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2013

**(1) Summary of Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes all federal grants received by the Reed Institute that had activity during the year ended June 30, 2013. 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, 2013</u>
Perkins loans	84.038	\$ 3,836,764

**(3) Federal Direct Loans**

During the year ended June 30, 2013, the Reed Institute 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>Amount</u>
Direct loans	84.032	\$ 2,298,553
Direct parents' loans for undergraduate students	84.032	1,265,258
Direct parents' loans for graduate students	84.032	34,472
Total		\$ <u><u>3,598,283</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 \$54,003.

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OMB Circular A-133 Report  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2013

**(1) Summary of Auditor's Results**

(a) The type of report issued on the financial statements: **Unmodified opinion**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements:  
**None reported**

Material weaknesses: **No**

(c) Noncompliance which is material to the financial statements: **No**

(d) The type of report issued on compliance for major programs: **Unmodified opinion**

(e) Significant deficiencies in internal control over major programs: **None reported**

Material weaknesses: **No**

(f) Any audit findings which are required to report under Section 510(a) of OMB Circular A-133: **No**

(g) Major programs: **Student Financial Assistance Cluster, Research and Development Cluster**

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

(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*: No**

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