



THE REED INSTITUTE

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

Year ended June 30, 2012

(With Independent Auditors' Report Thereon)

THE REED INSTITUTE

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KPMG LLP
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**Independent Auditors' 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
The Reed Institute:

Compliance

We have audited The Reed Institute's compliance 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 The Reed Institute's major federal program for the year ended June 30, 2012. The Reed Institute's major federal program is identified in the summary of auditors' 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 program 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 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' compliance with the requirements governing the functions that it performs for The Reed Institute for the year ended June 30, 2012, 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' 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 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. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.



Internal Control over Compliance

Management of The Reed Institute 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 The Reed Institute'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 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 is performed by ACS. Internal control over compliance related to such functions for the year ended June 30, 2012 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' 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.

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 deficiencies, 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, 2012, and have issued our report thereon dated October 11, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 11, 2012. 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



This report is intended solely for the information and use of management, the board of trustees, others within the entity, 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 11, 2012

THE REED INSTITUTE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Student Financial Assistance Cluster:		
Department of Education:		
Direct programs:		
PELL grant	84.063	\$ 1,189,371
Perkins loans disbursements	84.038	536,043
Federal work study	84.033	156,289
Supplemental education opportunity grant	84.007	209,939
Total Student Financial Assistance Cluster		<u>2,091,642</u>
Research and Development Cluster:		
National Science Foundation:		
RUI – Collaborative Research: Critical Infrastructure Policy CAREER; Upon Which Selection Can Act	47.074	12,031
RUI – Influence of Network Structure on Sex Disparity	47.074	2,525
RUI – Molecular Modules of Aggression	47.075	14,700
RUI – Genomic Architecture of Adaptive Radiation	47.074	40,318
RUI – Genomic Architecture of Adaptive Radiation	47.074	113,272
Program to Retain Prom Undergrad Math/Science Majors	47.076	62,887
Total National Science Foundation		<u>245,733</u>
National Institutes of Health:		
Behavioral Economics in a Lab-based Token Economy	93.279	206,716
Ler Mediated Regulation of EPEC Virulence Genes	93.855	13,068
Mech for Env & Genetic Rev of Gender Biased Behavior	93.859	12,444
ARRA Mech for Env & Genetic Rev of Gender Biased Behavior	93.701	29,136
Studies of Manganese Binding Regulatory Proteins	93.859	9,968
Developing a New Model of Spider Gastrulation	93.865	90,318
Total National Institutes of Health		<u>361,650</u>
Other:		
Quantum Information Limitation & Primitives: Optimal State Id UC San Diego – DARPA	12.910	48,312
Effect of Zinc in Attaining & Effacing E.coli Infection University of Buffalo – NIH	93.855	49,971
Structural Analysis of the S.mutans Slor Mettaloregulatory Protein Middlebury College – NIH	93.121	13,206
Application of Quantum Computing in Aerospace Science & Engineering UC San Diego – AFOSR	47.076	22,979
Total other		<u>134,468</u>
Total research and development cluster		<u>741,851</u>
Total expenditures of federal awards		<u>\$ 2,833,493</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, 2012

(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, 2012. 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, 2012</u>
Perkins loans	84.038	\$	3,831,994

(3) Federal Direct Loans

During the year ended June 30, 2012, The Reed Institute processed the following amount of new loans under the Federal Direct Loans (which includes Stafford Loans and Parents' Loans for Undergraduate and Graduate Students) program:

	<u>CFDA number</u>		<u>Amount</u>
Direct loans	84.032	\$	2,470,486
Direct parents' loans for undergraduate students	84.032		1,719,034
Direct parents' loans for graduate students	84.032		22,474
Total		\$	<u>4,211,994</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 \$54,400.

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Schedule of Findings and Questioned Costs
Year ended June 30, 2012

(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:
None reported
Material weaknesses: **No**
- (c) Noncompliance that is material to the financial statements: **No**
- (d) The type of report issued on compliance for major programs: **Unqualified opinion**
- (e) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **No**
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**
- (g) Major program: **Student Financial Assistance 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