



THE REED INSTITUTE

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

Year ended June 30, 2015

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 (the College) 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 the College's major federal program for the year ended June 30, 2015. The College's major federal program is identified in the summary of auditors' 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 the College's major federal program 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 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 College 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, 2015.



Other Matters

We did not audit the College'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 College for the year ended June 30, 2015 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 College 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 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 College'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, 2015 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 College as of and for the year ended June 30, 2015, and have issued our report thereon dated October 2, 2015, 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

October 2, 2015

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Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Federal CFDA number	Federal grantor/pass-through grantor/program title	Type of award	Federal Program No.	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			3,808,953
84.063	Federal Pell Grant Program	Direct Award			1,106,699
	Total Student Financial Assistance Cluster				<u>5,281,880</u>
84.268	Direct Loans	Pass-through Award			3,141,573
	Total Student Federal Aid Cluster				<u>8,423,453</u>
	Research and Development Cluster:				
	Department of Energy:				
81.121	Nuclear Energy Research, Development & Demonstration	Direct Award	NE0008249		6,945
	Total DOE				<u>6,945</u>
	USDA:				
10.310	Agriculture & Food Research Initiative	Pass-through Award	2015-67023-23001	Virginia Tech	43,767
	Total USDA				<u>43,767</u>
	National Oceanic & Atmospheric Association:				
11.431	Climate and Atmospheric Research	Direct Award	NA130AR4310070		49,409
	Total National Oceanic & Atmospheric Association				<u>49,409</u>
	National Institute of Standards and Technology:				
11.609	Measurement and Engineering Research and Standards	Direct Award	70NANB13H060		12,184
	Total National Institute of Standards and Technology				<u>12,184</u>
	Defense Advanced Research Projects Agency:				
12.800	Research and Technology Development	Pass-through Award	N66001-09-1-2025	UC San Diego	96,910
	Total Defense Advanced Research Projects Agency				<u>96,910</u>
	Air Force Office of Scientific Research:				
	National Science Foundation:				
47.049	Mathematical & Physical Sciences	Direct Award	DMS-1406327		37,620
47.049	Mathematical & Physical Sciences	Direct Award	1462793		14,028
47.074	Biological Sciences	Direct Award	IOS-0818957		159,707
47.074	Biological Sciences	Direct Award	DEB-1021582		37,380
47.074	Biological Sciences	Direct Award	MCB-1150213		60,105
47.074	Biological Sciences	Direct Award	IOS-1257469		205,826
47.074	Biological Sciences	Pass-through Award	DEB-1257522	Cornell University	118,639
47.075	Social, Behavioral, and Economic Sciences	Direct Award	SES-1528190		13,892
47.076	Education and Human Resources	Direct Award	DUE-1154004		102,015
	Total National Science Foundation				<u>749,212</u>
	Environmental Protection Agency:				
66.509	Anthropogenic Influence on Biogenic VOC Oxidation	Direct Award	RD-83539901-0		87,009
	Total Environmental Protection Agency				<u>87,009</u>
	National Institutes of Health:				
93.273	Alcohol Research Programs	Pass-through Award	2R01AA012171-11A1	UC San Diego	237,640
93.279	Drug Abuse and Addiction Research Programs	Direct Award	1R01DA026127-01A1		178,145
93.398	Cancer Research Manpower	Direct Award	7K01CA163972-03		61,537
93.853	Extramural Research Programs in the Neurosciences	Direct Award	1R15NS091977-01		16,300
93.855	Allergy, Immunology and Transplantation Research	Direct Award	2R01A1081879-05		87,540
93.855	Allergy, Immunology and Transplantation Research	Direct Award	1R21AI115193-01		68,410
93.867	Vision Research	Direct Award	1R15EY023745-01		132,690
	Total National Institute of Health				<u>782,262</u>
	Total Research and Development Cluster				<u>1,827,698</u>
	Total expenditures of federal awards				<u>\$ 10,251,151</u>

See accompanying notes to schedule of expenditures of federal awards.

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OMB Circular A-133 Report

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(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, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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

The accompanying schedule of expenditures of federal awards includes all federal grants received by the College that had activity during the year ended June 30, 2015. This schedule has been prepared on the accrual basis of accounting.

(3) Loan Program Administration

The College administers the following loan program. There were \$587,381 in new Perkins loans made during the fiscal year.

	<u>CFDA number</u>	<u>Outstanding balance at June 30, 2015</u>
Perkins loans	84.038	\$ 3,808,953

(4) Federal Direct Loans

During the year ended June 30, 2015, 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>Amount</u>
Direct loans	84.268	\$ 1,889,559
Direct parents' loans for undergraduate students	84.268	1,252,014
Total		<u>\$ 3,141,573</u>

THE REED INSTITUTE
OMB Circular A-133 Report
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified**
- (b) Material weaknesses identified by the audit of the financial statements: **None**
- (c) Significant deficiencies in internal control identified by the audit of the financial statements: **None reported**
- (d) Noncompliance that is material to the financial statements: **None**
- (e) The type of report issued on compliance for major programs: **Unmodified**
- (f) Material weaknesses in internal controls over major programs: **None**
- (g) Significant deficiencies in internal controls over major programs: **None reported**
- (h) Any audit findings that are required to be reported under Section .510(a) of OMB Circular A-133: **No**
- (i) Major program: **Student Financial Assistance Cluster**
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- (k) 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*: None reported

(3) Findings and Questioned Costs Relating to Federal Awards: None reported