
INTERNATIONAL COMPUTER SCIENCE INSTITUTE

FINANCIAL STATEMENTS

for the years ended December 31, 2009 and 2008

with Report of Independent Auditors

and

Reports on Federal Award Programs in Accordance with

OMB Circular A-133

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees,
International Computer Science Institute
Berkeley, California

We have audited the accompanying statements of financial position of International Computer Science Institute (Institute) (a nonprofit organization) as of December 31, 2009, and 2008, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Computer Science Institute as of December 31, 2009, and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2010, on our consideration of International Computer Science Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of International Computer Science Institute taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Schedule I) is presented for additional analysis as required by U.S. Office of Management and Budget Circular OMB 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 audits 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
March 11, 2010

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

as of December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 178,640	\$ 167,370
Grant and contract receivables, net	769,910	895,339
Other receivables	60,221	72,694
Investments, at fair value	1,119,364	1,108,863
Prepaid expenses	15,501	13,659
Total Current Assets	<u>2,143,636</u>	<u>2,257,925</u>
Property and Equipment -		
net of accumulated depreciation and amortization	170,809	132,206
Deposits and other assets	<u>93,871</u>	<u>120,477</u>
Total Assets	<u>\$ 2,408,316</u>	<u>\$ 2,510,608</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Grant and contract advances	\$ 247,806	\$ 105,147
Current portion of capital lease	9,654	-
Accounts payable and other liabilities	96,273	233,426
Accrued payroll and other expenses	423,418	364,087
Total Current Liabilities	<u>777,151</u>	<u>702,660</u>
Long-Term Debt		
Capital lease, long-term portion	<u>34,094</u>	<u>-</u>
Total Liabilities:	<u>811,245</u>	<u>702,660</u>
Net Assets:		
Unrestricted	728,261	842,559
Temporarily restricted	868,810	965,389
Total Net Assets	<u>1,597,071</u>	<u>1,807,948</u>
Total Liabilities and Net Assets	<u>\$ 2,408,316</u>	<u>\$ 2,510,608</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENTS OF ACTIVITIES

for the years ended December 31, 2009 and 2008

	-----2009-----			-----2008-----		
	<u>Un- restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Un- restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support						
Research grants	\$ 7,864,211	\$ -	\$ 7,864,211	\$ 8,118,868	\$ -	\$ 8,118,868
Patent license fees	5,000	-	5,000	118,000	-	118,000
Contributions	90,600	-	90,600	123,092	-	123,092
Investment income	270,045	-	270,045	(315,521)	-	(315,521)
Contributions in kind	100,000	-	100,000	375,000	-	375,000
Other revenue	18,606	-	18,606	82,473	-	82,473
	<u>8,348,462</u>	<u>-</u>	<u>8,348,462</u>	<u>8,501,912</u>	<u>-</u>	<u>8,501,912</u>
Net assets released from restrictions	<u>96,579</u>	<u>(96,579)</u>	<u>-</u>	<u>256,654</u>	<u>(256,654)</u>	<u>-</u>
Total Revenues and Support	<u>8,445,041</u>	<u>(96,579)</u>	<u>8,348,462</u>	<u>8,758,566</u>	<u>(256,654)</u>	<u>8,501,912</u>
Expenses:						
Research programs	7,538,874	-	7,538,874	8,325,949	-	8,325,949
Management and general	1,020,465	-	1,020,465	719,996	-	719,996
Total Expenses	<u>8,559,339</u>	<u>-</u>	<u>8,559,339</u>	<u>9,045,945</u>	<u>-</u>	<u>9,045,945</u>
Changes in Net Assets	(114,298)	(96,579)	(210,877)	(287,379)	(256,654)	(544,033)
Net Assets at beginning of year	<u>842,559</u>	<u>965,389</u>	<u>1,807,948</u>	<u>1,129,938</u>	<u>1,222,043</u>	<u>2,351,981</u>
Net Assets at end of year	<u>\$ 728,261</u>	<u>\$ 868,810</u>	<u>\$ 1,597,071</u>	<u>\$ 842,559</u>	<u>\$ 965,389</u>	<u>\$ 1,807,948</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (210,877)	\$ (544,033)
Adjustments to reconcile changes in net assets to net cash used/provided by operating activities:		
Depreciation expense	93,618	112,664
(Gain)/loss on investments	(231,673)	336,998
(Gain)/loss on sale of equipment	131	-
(Increase)/decrease in operating assets:		
Contract receivables	125,429	516,466
Other receivables	12,473	160,377
Prepaid expenses	(1,842)	7,079
Deposits and other assets	26,605	(30,201)
Increase/(decrease) in operating liabilities:		
Grant and contract advances	142,659	55,908
Accounts payable and other liabilities	(137,153)	(32,969)
Accrued payroll and other expenses	59,331	(59,465)
Net cash provided/(used) by operating activities	<u>(121,299)</u>	<u>522,824</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(79,641)	(73,582)
Proceeds from sale of equipment	500	-
Purchase of investments	(550,100)	(250,200)
Capital gain and dividends reinvested	(37,996)	(15,386)
Proceeds from sale of investments	809,268	-
Net cash (used)/provided by investing activities	<u>142,031</u>	<u>(339,168)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on short-term line of credit	250,000	-
Repayments on short-term line of credit	(250,000)	(300,000)
Repayments on capital leases	(9,462)	-
Net cash provided/(used) by financing activities	<u>(9,462)</u>	<u>(300,000)</u>
Net increase/(decrease) in cash	11,270	(116,344)
Cash and cash equivalents at beginning of year	<u>167,370</u>	<u>283,714</u>
Cash and cash equivalents at end of year	<u>\$ 178,640</u>	<u>\$ 167,370</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 6,123	\$ 7,764
Equipment acquired through financing	\$ 53,210	\$ -
Contributions in-kind	\$ 100,000	\$ 375,000

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2009

	<u>Research Programs</u>	<u>Management and General</u>	<u>Total</u>
Personnel Expenses:			
Salaries and other personnel costs	\$ 2,953,653	\$ 1,488,626	\$ 4,442,279
Employee benefits	502,295	455,442	957,737
Payroll taxes	<u>190,660</u>	<u>103,925</u>	<u>294,585</u>
Total Personnel Costs	3,646,608	2,047,993	5,694,601
Communications	14,470	33,536	48,006
Contract furniture and equipment	221,834	-	221,834
Depreciation	37,914	55,704	93,618
Dues and subscriptions	6,407	19,121	25,528
Equipment rental	-	7,688	7,688
Insurance	666	17,906	18,572
Interest expense	-	6,654	6,654
Miscellaneous expenses	1,663	44,222	45,885
Office supplies	2,695	14,892	17,587
Outside services	108,872	45,384	154,256
Printing, postage and freight	1,973	20,044	22,017
Professional fees	46,480	50,799	97,279
Provision for uncollectible receivables	-	265,626	265,626
Rent	-	998,484	998,484
Repairs and maintenance	369	38,732	39,101
Small equipment	-	65,631	65,631
Sub-awards	271,730	-	271,730
Travel	233,124	70,870	303,994
Tuition reimbursement	161,098	150	161,248
Indirect costs recovered	<u>2,782,971</u>	<u>(2,782,971)</u>	<u>-</u>
Total Expenses	<u>\$ 7,538,874</u>	<u>\$ 1,020,465</u>	<u>\$ 8,559,339</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2008

	Research Programs	Management and General	Total
Personnel Expenses:			
Salaries and other personnel costs	\$ 3,124,518	\$ 1,410,713	\$ 4,535,231
Employee benefits	453,939	409,483	863,422
Payroll taxes	203,828	100,451	304,279
Total Personnel Costs	3,782,285	1,920,647	5,702,932
Communications	20,966	33,071	54,037
Contract furniture and equipment	82,644	-	82,644
Depreciation	56,259	56,405	112,664
Dues and subscriptions	7,807	6,215	14,022
Equipment rental	-	26,903	26,903
Insurance	666	18,438	19,104
Interest expense	-	7,764	7,764
Miscellaneous expenses	53,904	133,350	187,254
Office supplies	3,702	14,868	18,570
Outside services	388,162	60,087	448,249
Printing, postage and freight	809	11,671	12,480
Professional fees	54,080	197,789	251,869
Provision for uncollectible receivables	-	45,000	45,000
Rent	-	1,022,243	1,022,243
Repairs and maintenance	1,138	36,511	37,649
Small Equipment	-	84,338	84,338
Sub-awards	366,762	-	366,762
Travel	329,433	83,869	413,302
Tuition reimbursement	135,646	2,513	138,159
Indirect costs recovered	3,041,686	(3,041,686)	-
Total Expenses	\$ 8,325,949	\$ 719,996	\$ 9,045,945

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements

December 31, 2009

1. Organization:

International Computer Science Institute (Institute) was incorporated as a nonprofit California corporation on July 9, 1986. Its purpose is the invigoration and enrichment of research in the computer sciences. The Institute brings some of the world's foremost computer scientists together for periods from several weeks to several years for research and scholarship. Support consists primarily of grants and contracts with certain United States agencies and other organizations.

Program expenses include all the direct expenses of conducting basic computer science research as approved by the funding agency. Significant expenses include payroll and related costs, sub-awards, travel and contract equipment.

2. Basis of Presentation and Significant Accounting Policies:

Basis of Accounting:

The Institute's financial statements are presented using the accrual basis of accounting.

Basis of Presentation:

Under the provisions of Accounting Standards Codification 958, *Financial Statements of Not-for-Profit Organizations*, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions, but may be designated for specific purposes by action of the Board of Trustees, or otherwise limited by contractual arrangements with outside parties.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the Institute pursuant to those stipulations and/or expire with the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that the Institute maintain them permanently. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2009 and 2008, the Institute had no permanently restricted net assets.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
Notes to Financial Statements, (continued)

2. Basis of Presentation and Significant Accounting Policies: (continued)

Basis of Presentation: (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Property and Equipment, Depreciation and Amortization:

Fixed assets in excess of \$1,000 and with an estimated useful life in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value at date of receipt. Property and equipment purchased for specific projects, amounting to \$221,834 in 2009 and \$82,644 in 2008 is expensed when purchased as a reimbursable expense. Depreciation and amortization is computed using the straight-line method with estimated useful lives varying between three to eight years or, in the case of leasehold improvements, over the life of the lease if shorter.

Cash and Cash Equivalents:

For the purposes of the statement of cash flows, cash and cash equivalents are defined as demand deposits at banks and certificates of deposit with purchased maturities of less than ninety days.

Functional Allocation of Expenses:

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Institute.

Grant and Contract receivables:

Grant and contract receivables represent unreimbursed expenditures incurred under the terms of the contact or grant awards. All anticipated uncollectible amounts have been provided for in the reserve for uncollectible amounts. There was no reserve at December 31, 2009 and \$66,568 in reserve at December 31, 2008.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
Notes to Financial Statements, (continued)

2. Basis of Presentation and Significant Accounting Policies: (continued)

Revenue Recognitions:

Revenue from research grants consists of federal and institutional grant awards. Research grant revenue is recognized as expenses are incurred or upon the completion of the corresponding research activity as appropriate. Contributions are recognized when the Institute becomes aware of the promise to give.

Fair Value of Financial Instruments:

On January 1, 2008, the Institute adopted Accounting Standards Codification 820, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB Staff Position (FSP) delayed the effective dates of Accounting Standard Codification 820 for all non-financial assets and non-financial liabilities, excluding those assets that are recognized or disclosed at fair value on a recurring basis for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

On January 1, 2008, the Institute adopted Accounting Standards Codification 825, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of Accounting Standards Codification 320*. A provision of Codification 825 permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of Codification 825 are elective; however, the amendment to Accounting Standards Codification 320, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities that own trading and available-for-sale securities. The fair value option created by Accounting Standards Codification 825 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. The adoption of Accounting Standards Codification 825 did not have a significant impact on the Institute's results of operations and financial condition.

The Institute's financial instruments consist principally of cash and cash equivalents, prepaid expenses, notes receivables, investments, other assets, accounts payable, and accrued expenses. The Institute believes all of the financial instruments' recorded values approximate current market values.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

2. Basis of Presentation and Significant Accounting Policies: (continued)

New Accounting Pronouncements

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance provides amendments to require new disclosures regarding transfers in and out of Levels 1 and 2 of the fair value measurement hierarchy, and activity in Level 3, and to clarify existing disclosures regarding the level of disaggregation, inputs and valuation techniques. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Institute does not expect this guidance to have a material impact on our financial statements.

In June of 2009, the FASB issued guidance now codified as FASB ASC Topic 105, "Generally Accepted Accounting Principles," as the single source of authoritative nongovernmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of FASB ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Institute for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Institute's financial condition or results of operations, but will impact the financial reporting process by eliminating all references to pre-codification standards. On its effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In May 2009, the FASB issued guidance on subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, under the guidance, an entity is required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Institute adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on our financial statements.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
Notes to Financial Statements, (continued)

2. Basis of Presentation and Significant Accounting Policies: (continued)

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates include the depreciable lives of long lived assets and reserves for uncollectible amounts. Accordingly, actual results could differ from those estimates.

Income taxes:

The Institute is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California Franchise and/or Income taxes under the Revenue and Taxation Code, Section 23701(d). The Institute has also received a ruling that it is not a Private Foundation.

3. Concentrations

The Institute maintains its cash at Wells Fargo Bank. The Federal Deposit Insurance Corporation (FDIC) insures bank balances up to \$250,000. At December 31, 2009 and 2008, the Institute did not exceed the insured limits at Wells Fargo Bank.

At December 31, 2009 and 2008, the Institute had outstanding grants receivable of \$769,910 and \$895,339 respectively. Management does not anticipate any collection issues on the outstanding receivables in excess of its reserve for uncollectible accounts.

4. Contingencies

The Institute is engaged in providing research to the government and is subject to the peculiar risks associated with doing business with the government. The Institute is also subject to audit by various governmental agencies including, among others, the Defense Contract Audit Agency, and such audits may result in changes to the amounts that the Institute has billed for this research. Any such changes are not expected to have a material effect on the Institute's financial position or on its changes in net assets.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
Notes to Financial Statements, (continued)

5. Investments

Investments are stated at fair value. At December 31, investments consisted of the following:

	2009		2008	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Shares in private companies	\$ 203	\$ 13,021	\$ 203	\$ 13,021
Equities	450	28,784	350	3,817
Certificate of deposits	550,000	548,866	250,000	251,566
Bond and equity mutual funds	<u>515,023</u>	<u>528,693</u>	<u>1,038,657</u>	<u>840,459</u>
Total	<u>\$ 1,065,676</u>	<u>\$ 1,119,364</u>	<u>\$ 1,289,210</u>	<u>\$ 1,108,863</u>

Interest, dividends, and capital gains distributions earned on these investments amounted to \$38,372 and \$21,477 for the years ended December 31, 2009 and 2008, respectively. The Institute had no realized gains or losses during the years ended December 31, 2009 and 2008. Unrealized gains amounted to \$231,673 for the year ended December 31, 2009 and unrealized losses amounted to \$336,998 for the year ended December 31, 2008.

Investments at December 31, 2009 and 2008 include 63,643 shares in a private non-public company received in exchange for certain patent rights. The shares are recorded at management's estimate of their market value. No dividends have been received on these shares.

During 2005, the Institute received options, which expire through 2014, to purchase shares in two additional private companies in exchange for consulting services. During 2009, the Institute exercised its options in one of these companies in exchange for 1,000 shares of stock. The remaining options are not publicly traded and are not subject to reasonable valuation and, accordingly have not been recorded in the books of the Institute.

In 2008, the Institute purchased 200,000 shares of Xorp, Inc., formerly Breakaway Networks, Inc. These shares are restricted from trading.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

6. Fair Value of Financial Instruments

As defined in Accounting Standards Codification 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Codification 820 establishes a framework for measuring fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information.

The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by Codification 820 are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Institute for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Institute's Level 1 assets and liabilities include exchange traded equities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques. The following table sets forth the Institute's assets and liabilities that are measured at fair value on a recurring basis as of the December 31, 2009:

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

6. Fair Value of Financial Instruments (continued)

Description	Level 1	Level 2	Level 3	Total
Shares in private companies	\$ -	\$ -	\$ 13,021	\$ 13,021
Equities	28,784	-	-	28,784
Certificates of deposit	-	548,866	-	548,866
Bond and equity mutual funds	528,693	-	-	528,693
Total	\$ 557,477	\$ 548,866	\$ 13,021	\$ 1,119,364

The following table sets forth the changes in fair value of the Institute's investments measured using significant unobservable inputs (Level 3) during the year ended December 31, 2009:

	Level 3 Investments
Balance at December 31, 2008	\$ 13,021
Purchases and sales	-
Total unrealized gains or losses, net	-
Balance at December 31, 2009	\$ 13,021

For Level 3 securities which represent investments in private companies, the Institute values the securities using financial statements, cash flow discounts and other similar transactions by the private companies. If there are any changes in valuation, the Company includes the unrealized loss as a charge to operations and a reduction to the securities' value on the balance sheet.

7. License Agreements

From time to time the Institute enters into non-exclusive licensing agreements with various corporations with respect to its technology. The value, if any, of such agreements is recorded in the books of the Institute when applicable.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

8. Property and Equipment

Property and equipment is valued as stated in Note 2 and is summarized as follows:

	<u>2009</u>	<u>2008</u>
Equipment	\$ 2,983,197	\$ 2,919,274
Furniture and fixtures	340,005	340,005
Software	168,308	168,308
Leasehold improvements	<u>881,708</u>	<u>881,708</u>
	4,373,218	4,309,295
Less accumulated depreciation and amortization	<u>(4,202,409)</u>	<u>(4,177,089)</u>
Property and equipment, net	<u>\$ 170,809</u>	<u>\$ 132,206</u>

Depreciation expense was \$93,618 and \$112,664 for the years ended December 31, 2009 and 2008.

9. Leases

The Institute leases its offices under a non-cancelable operating lease, which expires on March 31, 2013. Rent expense was \$998,484 and \$1,022,243 for the years ended December 31, 2009 and 2008, respectively. Minimum rental commitments under the lease are as follows:

Year Ended December 31,	
2010	\$ 985,371
2011	1,016,904
2012	1,049,445
2013	<u>264,411</u>
Total minimum rental payments	<u>\$ 3,316,131</u>

10. Employee Retirement Plan

The Institute has adopted a defined-contribution retirement plan (the Plan) covering all administrative and research employees who work a least 50% of the full time equivalent. The Institute contributes 10% of regular salary to the Plan, which is administered by TIAA/CREF, for eligible employees. The Institute's retirement expense was \$317,777 and \$274,560 for the years ended December 31, 2009 and 2008, respectively.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

11. Line of Credit

The Institute has a \$600,000 revolving line of credit from Wells Fargo Bank, which it draws upon from time to time. The line is secured by the Institute's interest in the Wells Fargo WFSI Brokerage account. Borrowings against the line bear interest at the bank's prime rate. The rate on the line at December 31, 2009 was 5.00%. There was no amount payable at December 31, 2009 and 2008.

12. Foreign Currency Exchange Risk

Certain Institute contracts are expressed in foreign currencies. The Institute may incur gains or losses on the exchange of those currencies into US dollars. Such gains or losses are not material to the operations of the Institute and are included in operating expense in the period in which they are incurred.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets amounted to \$868,810 and \$965,389 at December 31, 2009 and 2008, which is restricted to certain types of internet research projects as described in a contract termination agreement. During the years ended December 31, 2009 and 2008 \$96,579 and \$256,654, respectively, of temporarily restricted net assets were released from restrictions, by incurring expenses in accordance with the terms of the agreement.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Trustees,
International Computer Science Institute
Berkeley, California

We have audited the financial statements of International Computer Science Institute as of and for the year ended December 31, 2009, and have issued our report thereon dated March 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered International Computer Science Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of International Computer Science Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of International Computer Science Institute's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether International Computer Science Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, board of directors, and 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
March 11, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees,
International Computer Science Institute
Berkeley, California

Compliance

We have audited the compliance of International Computer Science Institute with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. International Computer Science Institute's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (Schedule II). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of International Computer Science Institute's management. Our responsibility is to express an opinion on International Computer Science Institute's compliance based on our audit.

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 International Computer Science 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 International Computer Science Institute's compliance with those requirements.

In our opinion, International Computer Science Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of International Computer Science 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 International Computer Science Institute's internal control over compliance with the 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 in accordance with OMB 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 International Computer Science Institute'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.

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.

This report is intended solely for the information and use of International Computer Science Institute's audit committee, management, board of directors, and 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
March 11, 2010

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grant Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
<u>Research and Development Cluster</u>			
Air Force Research Laboratory / IFED Predictive Analysis in Dynamic and Uncertain Environments	FA8750-07- C-0111	\$ 32,955	\$ 30,907
Total Air Force Research Laboratory/IFED		<u>32,955</u>	<u>30,907</u>
US Army Research, Development, and Engineering Command Acquisition Center Analysis and Design of Manycore Processor to DRAM Opto-Electrical Networks with Integrated Silicon Photonics	12.431	140,328	-
Optically Banked DRAM w/Monolithic CMOS Photonic Networks	12.431	<u>5,328</u>	<u>-</u>
Total US Army Research, Development, and Engineering Command Acquisition Center		<u>145,656</u>	<u>-</u>
National Geospatial - Intelligence Agency Key-Word and Key-Acoustic Event Spotting	HM1582- 06-C-0020	<u>92,624</u>	<u>-</u>
Total National Geospatial - Intelligence Agency		<u>92,624</u>	<u>-</u>
Office of Naval Research The Role of the Hypervisor in an Overall Security Architecture	12.300	<u>226,776</u>	<u>-</u>
Total Office of Naval Research		<u>226,776</u>	<u>-</u>

See accompanying notes to the schedule of expenditures of federal awards

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grant Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
National Science Foundation			
Collaborative Research: SEIII: Estimating Haplotype Frequencies	47.070	7,937	-
IIS: Rapid Development of a Frame Semantic Lexicon	47.070	28,867	-
CT-T: Approaches to Network Defense Proven in Open Scientific Environments	47.070	43,347	-
NeTS-FIND: Network Fabric for Personal, Social, and Urban Sensing Applications	47.070	44,016	-
CT-T: Establishing a Cross-Institutional Platform for Cooperative Security Monitoring and Forensics "Awareness"	47.070	225,636	-
CT-T: Exploiting Multi-Core CPUs for Parallelizing Network Intrusion Prevention	47.070	126,537	-
III-CXT: Population Stratification Methods	47.070	214,544	-
RI: Collaborative Proposal: Complimentary Lexical Resources: Towards an Alignment of WordNet and FrameNet	47.070	10,687	-
RI: Paraphrasing using Lexico-Semantic Resources	47.070	10,333	-
NeTS-FIND: Collaborative Research: Architectural Support for Selectively-Connected End Systems: Enabling an Energy-Efficient Future Internet	47.070	15,539	-
NeTS-FIND: Collaborative Research: A New Approach to Internet Naming and Name Resolution	47.070	33,719	-
NeTS-FIND: Architectural Support for Network Trouble-Shooting	47.070	252,524	-
SGER: Architecting Effective Computer Security Grand Challenge Competitions	47.070	111,957	-
SING: Foundations of Next-Generation Routing	47.070	10,517	-

See accompanying notes to the schedule of expenditures of federal awards

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
HRI: Perceptually Situated Human-Robot Dialog Models	47.070	316,339	185,686
SGER: Beyond the Core: A Pilot Project on Cataloguing Grammatical Constructions and Multiword Expressions in English	47.070	19,068	-
RI-Small: Collaborative Research: Dispatcher's Assistant for Emergency First Response	47.070	75,731	-
NeTS-FIND: Collaborative Research: Relationship-Oriented Networking	47.070	101,903	-
CT-T: Towards a More Accountable Internet	47.070	15,143	-
CT-L: Collaborative Research: Comprehensive Application Analysis and Control	47.070	303,387	-
SGER: Toward Figurative Language Interpretation: A Pilot Study	47.070	82,926	-
HCC: Medium: Collaborative Research: Computer Vision and Online Communities: A Symbiosis	47.082	37,853	-
CI-ADDO-EN: FrameNet 3: Upgrading FrameNet for the NLP Community	47.070	29,069	-
CI-P: The ICSI Metaphor Annotated Corpus	47.070	39,120	-
EAGER: CISE/IIS/RI/Program Element 7495: Crowdsourcing for NLP: Exploring Two Approaches	47.070	17,126	-
NeTS:Medium:Invigorating Empirical Network Research via Mediated Trace Analysis	47.070	175,148	-
MRI: Acquisition of Tesla Hardware for Speech Recognition	47.070	108,167	-
TC: Small: A High-Performance Abstract Machine for Network Intrusion Detection	47.070	18,424	-
ITR/ANI: Addressing Fundamental Issues for Robust Internet Performance	47.070	233,495	-

See accompanying notes to the schedule of expenditures of federal awards

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
IIS/HCI: Modeling Idiosyncrasies in Speaking Behavior	47.070	96,636	-
Workshop: The Future of Internet Research, Berkeley, CA; December, 2003	47.070	(6)	-
Collaborative Proposal Cybertrust: Center for Internet Epidemiology and Defense	47.070	<u>517,659</u>	<u>-</u>
Total National Science Foundation		<u>3,323,346</u>	<u>185,686</u>
<u>Pass-through Awards</u>			
BBN Technologies Corp. Novel Information Gathering & Harvesting Techniques For Intelligence In Global Autonomous Language Environments (DARPA)	HR0011-06- C-0022	102,896	-
Children's Hospital Boston EMSC Targeted Issue Grant	93.127	185,359	-
IBM Corporation Rosetta: An Analyst Co-Pilot Program	4909030308	43,508	-
LockHeed Martin UTRA-Vis Program	TT0715232	252,146	-
Massachusetts Institute of Technology ITR/ANI: Robust Large Scale Distributed Systems	47.070	89,556	-

See accompanying notes to the schedule of expenditures of federal awards

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
SRI International			
Novel Information Gathering & Harvesting Techniques for Intelligence in Global Autonomous Language Environments	12.910	609,900	-
Cognitive Assistant that Learns and Observes (CALO) Year 5 Visual Recognition	12.910	966	-
Cognitive Assistant that Learns and Observes (CALO) Year 5 Speech Processing	12.910	6,361	-
IARPA-SCIL	12.910	59,410	-
	W911NF- 09-C-0089		
University of California, Berkeley			
VIRAT EMS	12.910	256,711	-
Genome-wide Association Study of Non- Hodgkin's Lymphoma	93.393	18,600	-
NGA-NURI 2008	12.630	44,652	-
NURI- Multimodal Geolocation Detection for Consumer-Produced Videos	12.630	14,669	-
University of California, San Diego			
III-CXT-Medium: Biological Data Integration Using Large Scale Molecular Interaction Networks	47.070	145,034	-
Vassar College			
ANC-MASC: CRI:CRD A Richly Annotated Resource for Language Processing and Linguistics Research	47.070	62,049	-
Total Pass-through Awards		<u>1,891,816</u>	-
<u>Total Research and Development Cluster</u>		<u>5,713,173</u>	<u>216,593</u>
Total Federal Awards		<u>\$ 5,713,173</u>	<u>\$ 216,593</u>

See accompanying notes to the schedule of expenditures of federal awards

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

Note A: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note B: Subrecipients:

The Institute provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA/ Grant Number</u>	<u>Amount Provided</u>
Predictive Analysis in Dynamic and Uncertain Environments	FA8750-07-C-0111	\$ 30,907
HRI: Perceptually Situated Human-Robot Dialog Models	47.070	<u>185,686</u>
Total Federal Awards to Subrecipients		<u>\$216,593</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 ☐ Yes ☒ No

Identification of major programs:

<u>CFDA/Program Title</u>	<u>Expenditures</u>
Research and Development Cluster	<u>\$ 5,713,173</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

Dollar threshold used to distinguish between type A
and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

No findings.

Section III – Federal Award Findings and Questioned Costs

No findings.

Section IV – Summary Schedule of Prior Year Audit Findings

Finding 08-1

Program Title: Collaborative Proposal Cybertrust: Center for Internet Epidemiology and
Defense – award no. CNS-0433702

CFDA Number: 47.070

Grant Period: September 1, 2006 to August 31, 2009

Type of Finding: Cost Principles

Condition:

In September 2008, Booz, Allen & Hamilton conducted a desk review of International Computer Science Institute, (ICSI) on behalf of the National Science Foundation. The review included an assessment of ICSI's award-related management practices, a review of the accounting and financial systems, and a reconciliation of one quarter's financial FCTR information for award number CNS-0433702 with ICSI's corresponding accounting records. The National Science Foundation issued their report in October 2008 listing a number of concerns about ICSI's management practices and accounting and financial systems. Two of these concerns required prompt attention by ICSI and the remainder were considered to be minor.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

Section IV – Summary Schedule of Prior Year Audit Findings – Continued

Concerns:

1. International Computer Science Institute's time and effort reporting form does not appear to comply with the Office of Management and Budget (OMB) A-122 standards in that it only delineates the percentage distribution of effort spent on various activities; it does not delineate the number of hours for each activity or the total hours for the reporting period.
2. The written policies and procedures related to expenditure monitoring were drafted for the purpose of the review and are not official, documented policies. In addition, ICSI does not appear to have procedures in place to ensure that awards are effectively monitored so as to preclude incurring obligations in excess of approved award budgets.

Status:

Corrective Action Taken.

ICSI has revised the PAR form to show the hours worked for all government grant awards by each employees.

Management of ICSI has written official policies and procedures covering the monitoring of all contract costs.

The contact person at International Computer Science Institute for these corrective actions is Theresa Hilaire, CFO. Phone no. 510-666-2911.

A closing letter dated October 23, 2009 regarding these findings was issued by the National Science Foundation, Laura Hansen-Rainey, Audit Manager, National Single Audit Coordinator.