
INTERNATIONAL COMPUTER SCIENCE INSTITUTE

FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

With Report of Independent Auditors

INDEPENDENT AUDITORS' REPORT

And

Reports on Federal Award Programs in Accordance with

OMB Circular A-133

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

CONTENTS

	<u>Schedule</u>	<u>Page</u>
Report of Independent Auditors		1-2
Statements of Financial Position		3
Statements of Activities		4
Statements of Cash Flows		5
Statements of Functional Expenses		6-7
Notes to Financial Statements		8-16
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		17-18
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		19-20
Schedule of Expenditures of Federal Awards	I	21-26
Notes to the Schedule of Expenditures of Federal Awards	I	27
Schedule of Findings and Questioned Costs	II	28-29

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, 2012, and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design auditor procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and 2011 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards (Schedule I), as required by U.S. Office of Management and Budget Circular (OMB) A-133, *Audits of States, Local Governments and Nonprofit Organizations* is presented for purposes of additional analysis and is not a required part of the basic 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 audits of the basic 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 information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2013, 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* in considering International Computer Science Institute's internal control over financial reporting and compliance.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
April 15, 2013

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

as of December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 1,378,742	\$ 657,168
Grant and contract receivables, net	1,465,729	1,209,676
Other receivables	7,081	10,588
Investments, at fair value	521,914	610,369
Prepaid expenses	15,415	27,501
Total Current Assets	<u>3,388,881</u>	<u>2,515,302</u>
Property and Equipment -		
net of accumulated depreciation and amortization	204,513	186,337
Deposits and other assets	<u>93,847</u>	<u>93,897</u>
Total Assets	<u>\$ 3,687,241</u>	<u>\$ 2,795,536</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and other liabilities	\$ 551,956	\$ 273,981
Accrued payroll and other expenses	476,824	511,372
Current portion of capital lease	12,018	11,864
Grant and contract advances	233,166	89,670
Total Current Liabilities	<u>1,273,964</u>	<u>886,887</u>
Long-Term Debt:		
Capital lease, long-term portion	-	11,763
Total Liabilities	<u>1,273,964</u>	<u>898,650</u>
Net Assets:		
Unrestricted	1,653,043	1,108,426
Temporarily restricted	760,234	788,460
Total Net Assets	<u>2,413,277</u>	<u>1,896,886</u>
Total Liabilities and Net Assets	<u>\$ 3,687,241</u>	<u>\$ 2,795,536</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, 2012 and 2011

	-----2012-----			-----2011-----		
	Un- restricted	Temporarily Restricted	Total	Un- restricted	Temporarily Restricted	Total
Revenues and Support:						
Research grants	\$ 12,062,044	\$ -	\$ 12,062,044	\$ 8,944,375	\$ -	\$ 8,944,375
Patent license fees	-	-	-	8,500	-	8,500
Contributions	394,897	-	394,897	301,600	-	301,600
Investment income	61,591	-	61,591	13,582	-	13,582
Other revenue	1,136	-	1,136	16,049	-	16,049
	<u>12,519,668</u>	<u>-</u>	<u>12,519,668</u>	<u>9,284,106</u>	<u>-</u>	<u>9,284,106</u>
Net assets released from restrictions	28,226	(28,226)	-	28,131	(28,131)	-
Total Revenues and Support	<u>12,547,894</u>	<u>(28,226)</u>	<u>12,519,668</u>	<u>9,312,237</u>	<u>(28,131)</u>	<u>9,284,106</u>
Expenses:						
Research programs	11,558,872	-	11,558,872	8,466,487	-	8,466,487
Management and general	444,405	-	444,405	567,664	-	567,664
Total Expenses	<u>12,003,277</u>	<u>-</u>	<u>12,003,277</u>	<u>9,034,151</u>	<u>-</u>	<u>9,034,151</u>
Changes in Net Assets	544,617	(28,226)	516,391	278,086	(28,131)	249,955
Net Assets at beginning of year	<u>1,108,426</u>	<u>788,460</u>	<u>1,896,886</u>	<u>830,340</u>	<u>816,591</u>	<u>1,646,931</u>
Net Assets at end of year	<u>\$ 1,653,043</u>	<u>\$ 760,234</u>	<u>\$ 2,413,277</u>	<u>\$ 1,108,426</u>	<u>\$ 788,460</u>	<u>\$ 1,896,886</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 516,391	\$ 249,955
Adjustments to reconcile changes in net assets to net cash used/provided by operating activities:		
Depreciation expense	69,218	56,270
Provision for doubtful receivables	225,361	48,001
Net appreciation/(depreciation) on investments	(43,114)	8,616
(Increase)/decrease in operating assets:		
Contract and grant receivables	(481,414)	(272,919)
Other receivables	3,507	(8,509)
Prepaid expenses	12,086	(16,823)
Deposits and other assets	50	(26)
Increase/(decrease) in operating liabilities:		
Grant and contract advances	143,496	49,636
Accounts payable and other liabilities	277,976	149,367
Accrued payroll and other expenses	(34,548)	10,025
Net cash provided by operating activities	<u>689,009</u>	<u>273,593</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(87,395)	(84,860)
Purchase of investments	(12,548)	(21,598)
Proceeds from sale of investments	149,990	84,882
Capital gain and dividends reinvested	(5,873)	-
Net cash provided by/ (used in) investing activities	<u>44,174</u>	<u>(21,576)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Total advances on short-term line of credit	350,000	100,000
Total repayments on short-term line of credit	(350,000)	(370,000)
Repayments on capital leases	(11,609)	(10,544)
Net cash used in financing activities	<u>(11,609)</u>	<u>(280,544)</u>
Net increase/(decrease) in cash	721,574	(28,527)
Cash and cash equivalents at beginning of year	<u>657,168</u>	<u>685,695</u>
Cash and cash equivalents at end of year	<u>\$ 1,378,742</u>	<u>\$ 657,168</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 5,442</u>	<u>\$ 7,033</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, 2012

	Research Programs	Management and General	Total
Personnel Expenses:			
Salaries and other personnel costs	\$ 4,056,312	\$ 1,836,570	\$ 5,892,882
Employee benefits	718,402	575,284	1,293,686
Payroll taxes	252,057	125,867	377,924
Total Personnel Expenses	5,026,771	2,537,721	7,564,492
Communications	11,400	35,630	47,030
Contract furniture and equipment	203,693	-	203,693
Depreciation	-	69,218	69,218
Dues and subscriptions	1,640	40,581	42,221
Equipment rental	-	939	939
Insurance	666	18,891	19,557
Interest expense	-	5,442	5,442
Marketing research	-	34,611	34,611
Miscellaneous expenses	5,123	33,961	39,084
Office supplies	2,567	31,367	33,934
Outside services	7,940	69,571	77,511
Printing, postage and freight	294	10,398	10,692
Professional fees	250,627	230,843	481,470
Property tax	-	27,547	27,547
Provision for uncollectible receivables	-	225,361	225,361
Rent	-	1,011,611	1,011,611
Repairs and maintenance	-	86,128	86,128
Small equipment	-	73,526	73,526
Sub-awards	1,348,566	-	1,348,566
Travel	286,608	101,839	388,447
Tuition reimbursement	212,197	-	212,197
Indirect costs recovered	4,200,780	(4,200,780)	-
Total Expenses	\$ 11,558,872	\$ 444,405	\$ 12,003,277

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, 2011

	Research Programs	Management and General	Total
Personnel Expenses:			
Salaries and other personnel costs	\$ 3,103,749	\$ 1,508,119	\$ 4,611,868
Employee benefits	557,674	462,472	1,020,146
Payroll taxes	204,408	96,582	300,990
Total Personnel Expenses	3,865,831	2,067,173	5,933,004
Communications	11,853	36,114	47,967
Contract furniture and equipment	141,216	-	141,216
Depreciation	-	56,270	56,270
Dues and subscriptions	4,764	35,024	39,788
Equipment rental	-	481	481
Insurance	666	18,158	18,824
Interest expense	-	7,033	7,033
Marketing research	-	-	-
Miscellaneous expenses	1,912	30,318	32,230
Office supplies	4,477	17,277	21,754
Outside services	7,655	39,156	46,811
Printing, postage and freight	898	12,738	13,636
Professional fees	239,260	53,598	292,858
Property tax	-	31,662	31,662
Provision for uncollectible receivables	-	48,001	48,001
Rent	-	1,010,402	1,010,402
Repairs and maintenance	-	34,054	34,054
Small Equipment	-	90,883	90,883
Sub-awards	721,990	-	721,990
Travel	272,721	75,057	347,778
Tuition reimbursement	97,509	-	97,509
Indirect costs recovered	3,095,735	(3,095,735)	-
Total Expenses	\$ 8,466,487	\$ 567,664	\$ 9,034,151

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements

December 31, 2012

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.

Research 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:

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, 2012 and 2011, 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 value at date of receipt. Property and equipment purchased for specific projects, amounting to \$203,693 in 2012 and \$141,216 in 2011 is expensed when purchased as a reimbursable expense. Depreciation and amortization on other property and equipment 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 purposes of the statement of cash flows, cash and cash equivalents are defined as demand deposits at banks and certificates of deposit with initial 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 contract or grant awards..

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 in accordance with the terms of the contract, 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 Disclosures:

The Institute is required to disclose estimated fair values of its financial instruments. The fair value estimates presented herein are based on relevant information available to management as of December 31, 2012. Because the reporting requirements exclude certain financial instruments and all non-financial instruments the aggregate fair value amounts presented herein do not represent management's estimate of the underlying value of the Institute.

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

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). The Institute adopted 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 are defined 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.

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

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

Fair Value Disclosures: (continued)

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.

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, reserves for uncollectible amounts, accrued liabilities and the allocation of functional expenses. Accordingly, actual results could differ from those estimates.

Advertising Costs

The Institute expenses advertising costs as they are incurred. There were no advertising costs incurred in 2012 and 2011.

Allowance for Doubtful Accounts

Accounts receivable are shown net of an allowance for doubtful accounts. After review of the accounts receivable aging, management estimated necessary reserves of \$187,427 and \$18,369 at December 31, 2012 and 2011, respectively.

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

3. Concentrations:

The Institute maintains its cash at Wells Fargo Bank. Under the FDIC Transaction Account Guarantee Program (TAGP), all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account until December 31, 2012. Coverage under TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. At December 31, 2012 and 2011, the Institute had an uninsured balance of \$384,539 and \$118,554.

At December 31, 2012 and 2011, the Institute had outstanding grants receivable (net of allowance for uncollectible amounts) of \$1,465,729 and \$1,209,676 respectively. Management does not anticipate any collection issues on the outstanding receivables in excess of its reserve for uncollectible accounts.

The Institute's research grant revenue was concentrated with one grantor who comprised 32% and 43% of total research grant revenue for the years ended December 31, 2012 and 2011, respectively. In 2012, two other grantors comprised 29% and 14% of total research grant revenues.

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.

5. Investments:

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

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Shares in private companies	\$ 3	\$ 3	\$ 3	\$ 3
Equities	350	4,249	350	4,449
Bond and equity mutual funds	423,901	517,662	555,470	605,917
TOTAL	\$ 424,254	\$ 521,914	\$ 555,823	\$ 610,369

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

5. Investments: (continued)

Interest and dividends earned on these investments amounted to \$12,604 and \$22,198 for the years ended December 31, 2012 and 2011, respectively. The Institute received capital gain distributions of \$5,813 in 2012 and had net realized gains of \$84,782 in the year ended December 31, 2011. Net unrealized gains amounted to \$43,114 for the year ended December 31, 2012. Net unrealized loss amounted to \$93,398 for the year ended December 31, 2011.

The Institute wrote off certain investments that became worthless, and recorded an investment loss of \$12,818 in 2011 and is included in realized gain above.

6. Fair Value of Financial Instruments:

The following table sets forth the Institute's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2012 and 2011:

Description	Level 1	Level 2	Level 3	Total 2012
Shares in private companies	\$ -	\$ -	\$ 3	\$ 3
Equities	4,249	-	-	4,249
Bond and equity mutual funds	517,662	-	-	517,662
Total	\$ 521,911	\$ -	\$ 3	\$ 521,914

Description	Level 1	Level 2	Level 3	Total 2011
Shares in private companies	\$ -	\$ -	\$ 3	\$ 3
Equities	4,449	-	-	4,449
Bond and equity mutual funds	605,917	-	-	605,917
Total	\$ 610,366	\$ -	\$ 3	\$ 610,369

For Level 3 securities which represent investments in private companies, the Institute values the securities using financial statements, cash flow discounts and other similar sources. If there are any changes in valuation, the Institute includes the unrealized gain or loss in its operations and a change 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. There are no such agreements at December 31, 2012 and 2011.

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:

	2012	2011
Equipment	\$ 3,197,813	\$ 3,110,593
Furniture and fixtures	340,180	340,005
Software	168,308	168,308
Leasehold improvements	881,708	881,708
	<u>4,588,009</u>	<u>4,500,614</u>
Less accumulated depreciation and amortization	(4,383,496)	(4,314,277)
Total	<u>\$ 204,513</u>	<u>\$ 186,337</u>

Depreciation expense was \$69,218 and \$56,270 for the years ended December 31, 2012 and 2011.

9. Leases:

The Institute leases its offices under a non-cancelable operating lease, which expires on March 31, 2013. Rent expense was \$1,011,611 and \$1,010,402 for the years ended December 31, 2012 and 2011, respectively.

Minimum rental payments under the operating agreements at December 31, 2012, are as follows:

Year Ended June 30:	
2013	\$ 264,411
Total	<u>\$ 264,411</u>

10. Capital Lease Obligations:

The Institute leases telephone equipment under a capital lease agreement which expires through 2013. Equipment under the capital lease has an original cost of \$53,210, and a net book value of \$31,926 at December 31, 2012.

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

10. Capital Lease Obligations: (continued)

Future minimum lease payments required under this capital lease agreement at December 31, 2012 are as follows:

<u>Year ending December 31,</u>	
2013	\$ 12,338
Total	12,338
Less amounts representing interest	(320)
Total capital lease obligations	12,018
Less long-term portion	-
Current portion	\$ 12,018

11. 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 \$412,879 and \$309,957 for the years ended December 31, 2012 and 2011, respectively.

12. Line of Credit:

The Institute has a \$700,000 revolving line of credit from Wells Fargo Bank, which it draws upon from time to time. The line expires on June 10, 2013 and 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, 2012 was 5.00%. The line of credit had no unpaid balance at either December 31, 2012 or 2011. Maximum borrowings on the line amounted to \$350,000 in 2012 and \$100,000 in 2011.

13. 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.

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

14. Temporarily Restricted Net Assets:

Temporarily restricted net assets amounted to \$760,234 and \$788,460 at December 31, 2012 and 2011, and are restricted to certain types of internet research projects as described in a contract termination agreement. During the years ended December 31, 2012 and 2011 \$28,226 and \$28,131, respectively, of temporarily restricted net assets were released from restrictions, by incurring expenses in accordance with the terms of the agreement.

15. Income Taxes:

The Institute is a not-for-profit organization, exempt from federal income tax under Section 501(c)(3) of the U.S Internal Revenue Code (the Code), and contributions to it are tax deductible as prescribed by the Code. The Institute is also exempt from California income and or Franchise tax under Section 23701d of the California Revenue and Taxation Code. The Institute is generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2008.

The Institute has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a “publicly supported” organization under Section 170(b)(1)(A)(vi) of the Code.

The Institute assesses its accounting for uncertainty in income taxes recognized in its financial statements and prescribes a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in the tax returns. There was no material impact on the Institute’s financial statements as a result of the adoption of this policy.

16. Subsequent Events:

The Institute has evaluated subsequent events through April 15, 2013, the date the financial statements were available to be issued. The Institute notes that there were no material subsequent events.

**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, in accordance with the 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, the financial statements of International Computer Science Institute, which comprise the statements of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered International Computer Science Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of International Computer Science Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of International Computer Science Institute's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the International Computer Science Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the International Computer Science Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
April 15, 2013

**INDEPENDENT AUDITOR'S 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**

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

Report on Compliance for Each Major Federal Program

We have audited the International Computer Science 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 International Computer Science Institute's major federal programs for the year ended December 31, 2012. International Computer Science Institute's major 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of International Computer Science 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of International Computer Science Institute.

Opinion on Each Major Federal Program

In our opinion, International Computer Science 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 December 31, 2012.

Report on Internal Control Over Compliance

Management of International Computer Science 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 International Computer Science 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 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. *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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

San Francisco, California
April 15, 2013

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

<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 Improving Speaker Recognition	12.300	\$ <u>156,570</u>	\$ _____ -
Total Air Force Research Laboratory/IFED		\$ <u>156,570</u>	\$ _____ -
Intelligence Advanced Research Projects ASR Diagnosis	FA8650- 12-C-7217	\$ 406,616	\$ -
SWORDFISH	W911NF- 12-C-0014	1,261,827	604,549
Metaphor	W911NF- 12-C-0022	<u>1,764,093</u>	<u>279,598</u>
Total Intelligence Advanced Research		\$ <u>3,432,536</u>	\$ <u>884,147</u>
National Institutes of Health Robust Localized Measures for Brain Networks	93.853	\$ <u>158,501</u>	\$ _____ -
Total National Institutes of Health		\$ <u>158,501</u>	\$ _____ -
Office of Naval Research			
Simulation Semantics: A Computational Framework for Embodied Language Understanding	12.300	\$ 291,088	\$ -
The Role of the Hypervisor in an Overall Security Architecture	12.300	207,610	-
Netalyzr	N66001- 12-C-0128	<u>2,527</u>	_____ -
Total Office of Naval Research		\$ <u>501,225</u>	\$ _____ -

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

<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			
HRI-Perseptually Situated Human Robot Dialog Models	47.070	\$ 13,301	\$ -
NeTS-FIND: Collaborative Research: Telationship-Oriented Networking	47.070	146,693	-
CT-T: Towards a More Accountable Internet	47.070	141,345	-
CT-L: Collaborative Research: Commphrehensive Application Analysis and Control	47.070	341,004	-
ARRA- HCC: Medium: Collaborative Research: Computer Vision and Online	47.082	105,427	-
NeTS: Small: The Design and Use of a Network Operating System	47.070	219,106	-
CISE/IIS/RI/Program Element 7495: Crowdsourcing for NLP: Exploring Two	47.070	7,950	-
Nets: Medium: Invigorating Empirical Network Research via Mediated Trace Analysis	47.070	262,482	-
TC: Small: A High-Performance Abstract Machine for Network Intrusion Detection	47.070	173,642	-
CI-P: Towards a Consensus Representation for Understanding Structure of Multiparty Conversations	47.070	3,850	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

<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>
TC: Small: Practical Data Confinement	47.070	\$ 236,000	\$ 71,169
Enhancing Bro for Operational Network			
Security	47.080	794,104	393,250
TC: Small: Understanding and Taming the			
Web's Privacy Footprint	47.070	122,221	-
Architecting for Innovation	47.070	255,667	-
Understanding and Managing the Impact of			
Global Inference on Online Privacy	47.070	310,556	-
Collecting Training Videos for Location			
Estimation with Mechanical Turk	47.070	40,340	-
International: An Analysis of Speaker			
Diarization System Errors	47.079	1,455	-
NeTS: Large: Collaborative Research:			
Measuring and Modeling the Dynamics of			
IPv4 Address Exhaustion	47.070	121,319	-
NeTS: Small: New Direction in Routing and			
Traffic Engineering	47.070	47,396	-
LexLink: Aligning WordNet, FrameNet,			
PropBank and VerbNet	47.070	12,529	-
Student Travel Support for the 2012 Internet			
Measurement Conference	47.070	9,954	-
NeTS: Medium: Characterizing Enterprise			
Networks	47.070	80,667	-
ICES: Small: Evaluation Price Mechanisms			
for Clouds	47.070	32,671	-
NeTS: Small: the Design and Implementation			
of a Consolidated Middlebox Architecture	47.070	36,187	-
Understanding and Exploiting Parallelism in			
Deep Packet Inspection On Concurrent			
Architectures	47.070	22,020	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor/ Pass through Grantor/ Program Title	Federal CFDA Number/ Grant Number	Federal Expenditures	Amounts Provided to Subrecipients
Limiting Manipulation in Data Centers and Clouds	47.070	\$ 11,526	\$ -
Combinatorial Optimization Methods for Problems in Molecular Biology	47.070	29,642	-
Users Centric	47.070	29,417	-
Frontiers	47.070	57,685	-
Censorship Conounterstrikes via Measurement, Filtering, Evasion and Protocol Enhancement	47.070	47,225	-
ACM CoNext 2012 Conference Travel Grant	47.070	9,801	-
CAREER: Art and Vision: Science Layout from Pictorial Cues	47.070	48,529	-
Callaborative Proposal Cybertrust: Center for Internet Epidemiology and Defense	47.070	<u>21,692</u>	<u>-</u>
Total National Science Foundation		\$ <u>3,793,403</u>	\$ <u>464,419</u>
<u>Pass-through Awards</u>			
Cpacket Networks Inc			
Cyber-Security and Networking: NIDS Front-End for Load Balancing at 100Gbps	81.049	\$ 36,918	\$ -
Decisive Analytics			
SBIR PH2: Metadata	W15P7T-11-C-H201	81,352	-
Discovering Valued Information in Clud Environment (DVICE)	N00014-12-M-0249	19,839	-
Kitware Inc			
SBIR- Human Robot	W31P4Q-10-C-0214	40,402	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor/ Pass through Grantor/ Program Title	Federal CFDA Number/ Grant Number	Federal Expenditures	Amounts Provided to Subrecipients
Lawrence Berkeley National Laboratory			
Cyber Security	DE-AC02-05CH11231	\$ 33,331	\$ -
Bro Intrusion Detection System	DE-AC02-05CH11231	30,978	-
Bro Intrusion Detection System	DE-AC02-05CH11237	11,751	-
Massachusetts Institute of Technology			
POEM (memory system)	HR0011-11-C-0100	411,637	-
Nonparametric Representations for intergrated Inference, Control and Sensing	12.910	164,460	-
Raytheon BBN Technologies Corp			
ASTRAL: Adaptive, Semantic Translation, Retrieval, Analysis and Learning	HR0011-12-C-0014	179,948	-
SRI International			
Robust Automatic Transcription of Speech (RATS)	D10PC2002 4	400,330	-
Aladdin	D11PC2006 6	433,685	-
The Foundation for California Community Colleges			
ARRA-California Connects	11.557	183,790	-
University Of California, Berkeley			
Minds Eye	12.431	269,404	-
BOLT	HR0011-11-2-009	347,959	-
A Cyber Awareness Framwork for Attack Analysis, Prediction and Visualization	W911NF-09-1-0553	66,614	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

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>
Resequencing and Functional Studies to Identify Casual Gene Variants of Lymphoma	1R01CA154 643-01A1	\$ 115,252	\$ -
Vassar College CRI:CRD A Richly Annotated Resource for Language Processing and Linguistics	47.070	<u>22,246</u>	<u>-</u>
Total Pass-through Awards		<u>\$ 2,849,896</u>	<u>\$ -</u>
Total Research and Development Cluster		<u>\$10,892,131</u>	<u>\$ 1,348,566</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

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 listed in Schedule I above.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

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? reported ☐ Yes ☒ None

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)? reported ☐ Yes ☒ None

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>\$ 10,892,131</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

Dollar threshold used to distinguish between type A
and type B programs:

\$326,764

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

No findings.