



INTERNATIONAL
COMPUTER SCIENCE
INSTITUTE

International Computer
Science Institute
Audited Financials
2013

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of International Computer Science Institute (Institute) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013, and 2012, 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, 2013, and 2012 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 Office of Management and Budget Circular 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 14, 2014, 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 14, 2014

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

as of December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 2,126,941	\$ 1,378,742
Grant and contract receivables, net	1,444,325	1,465,729
Other receivables	4,991	7,081
Investments, at fair value	1,705,650	521,914
Prepaid expenses	10,133	15,415
Total Current Assets	<u>5,292,040</u>	<u>3,388,881</u>
Property and Equipment - net of accumulated depreciation and amortization	207,673	204,513
Deposits and other assets	<u>93,637</u>	<u>93,847</u>
Total Assets	<u>\$ 5,593,350</u>	<u>\$ 3,687,241</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and other liabilities	\$ 1,033,466	\$ 551,956
Accrued payroll and other expenses	563,515	476,824
Current portion of capital lease	-	12,018
Grant and contract advances	165,900	233,166
Total Current Liabilities	<u>1,762,881</u>	<u>1,273,964</u>
Net Assets:		
Unrestricted	3,096,993	1,653,043
Temporarily restricted	733,476	760,234
Total Net Assets	<u>3,830,469</u>	<u>2,413,277</u>
Total Liabilities and Net Assets	<u>\$ 5,593,350</u>	<u>\$ 3,687,241</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, 2013 and 2012

	-----2013-----			-----2012-----		
	Un- restricted	Temporarily Restricted	Total	Un- restricted	Temporarily Restricted	Total
Revenues and Support:						
Research grants	\$ 12,748,548	\$ -	\$ 12,748,548	\$ 12,062,044	\$ -	\$ 12,062,044
Contributions	1,342,331	-	1,342,331	394,897	-	394,897
Investment income	129,663	-	129,663	61,591	-	61,591
Other revenue	37,109	-	37,109	1,136	-	1,136
	<u>14,257,651</u>	<u>-</u>	<u>14,257,651</u>	<u>12,519,668</u>	<u>-</u>	<u>12,519,668</u>
Net assets released from restrictions	26,758	(26,758)	-	28,226	(28,226)	-
Total Revenues and Support	<u>14,284,409</u>	<u>(26,758)</u>	<u>14,257,651</u>	<u>12,547,894</u>	<u>(28,226)</u>	<u>12,519,668</u>
Expenses:						
Research programs	12,032,184	-	12,032,184	11,558,872	-	11,558,872
Management and general	808,275	-	808,275	444,405	-	444,405
Total Expenses	<u>12,840,459</u>	<u>-</u>	<u>12,840,459</u>	<u>12,003,277</u>	<u>-</u>	<u>12,003,277</u>
Changes in Net Assets	1,443,950	(26,758)	1,417,192	544,617	(28,226)	516,391
Net Assets at beginning 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>
Net Assets at end of year	<u>\$ 3,096,993</u>	<u>\$ 733,476</u>	<u>\$ 3,830,469</u>	<u>\$ 1,653,043</u>	<u>\$ 760,234</u>	<u>\$ 2,413,277</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,417,192	\$ 516,391
Adjustments to reconcile changes in net assets to net cash used/provided by operating activities:		
Depreciation expense	80,577	69,218
Provision for doubtful receivables	-	225,361
Net appreciation/(depreciation) on investments	(90,898)	(43,114)
Loss on sale of equipment	759	-
(Increase)/decrease in operating assets:		
Contract and grant receivables	21,404	(481,414)
Other receivables	2,090	3,507
Prepaid expenses	5,282	12,086
Deposits and other assets	210	50
Increase/(decrease) in operating liabilities:		
Grant and contract advances	(67,266)	143,496
Accounts payable and other liabilities	481,511	277,976
Accrued payroll and other expenses	86,691	(34,548)
Net cash provided by operating activities	<u>1,937,552</u>	<u>689,009</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(84,496)	(87,395)
Purchase of investments	(3,282,571)	(12,548)
Proceeds from sale of investments	2,222,491	149,990
Capital gain and dividends reinvested	(32,759)	(5,873)
Net cash provided by/ (used in) investing activities	<u>(1,177,335)</u>	<u>44,174</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Total advances on short-term line of credit	-	350,000
Total repayments on short-term line of credit	-	(350,000)
Repayments on capital leases	(12,018)	(11,609)
Net cash used in financing activities	<u>(12,018)</u>	<u>(11,609)</u>
Net increase in cash	748,199	721,574
Cash and cash equivalents at beginning of year	<u>1,378,742</u>	<u>657,168</u>
Cash and cash equivalents at end of year	<u>\$ 2,126,941</u>	<u>\$ 1,378,742</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 440</u>	<u>\$ 5,442</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, 2013

	<u>Research Programs</u>	<u>Management and General</u>	<u>Total</u>
Personnel Expenses:			
Salaries and other personnel costs	\$ 4,375,976	\$ 2,036,731	\$ 6,412,707
Employee benefits	803,595	634,352	1,437,947
Payroll taxes	256,734	128,719	385,453
Total Personnel Expenses	<u>5,436,305</u>	<u>2,799,802</u>	<u>8,236,107</u>
Communications	10,668	37,265	47,933
Contract furniture and equipment	170,322	-	170,322
Depreciation	-	80,577	80,577
Dues and subscriptions	3,526	24,915	28,441
Insurance	666	20,114	20,780
Interest expense	-	440	440
Marketing research	-	47,599	47,599
Miscellaneous expenses	7,565	39,637	47,202
Office supplies	3,506	25,790	29,296
Outside services	16,667	177,498	194,165
Printing, postage and freight	1,332	10,314	11,646
Professional fees	194,183	258,187	452,370
Property tax	-	20,998	20,998
Rent	-	888,471	888,471
Repairs and maintenance	-	78,756	78,756
Small equipment	-	231,802	231,802
Sub-awards	1,549,753	-	1,549,753
Travel	335,930	110,950	446,880
Tuition reimbursement	256,921	-	256,921
Indirect costs recovered	<u>4,044,840</u>	<u>(4,044,840)</u>	<u>-</u>
Total Expenses	<u>\$ 12,032,184</u>	<u>\$ 808,275</u>	<u>\$ 12,840,459</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

	<u>Research Programs</u>	<u>Management and General</u>	<u>Total</u>
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	<u>5,026,771</u>	<u>2,537,721</u>	<u>7,564,492</u>
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	<u>4,200,780</u>	<u>(4,200,780)</u>	<u>-</u>
Total Expenses	<u>\$ 11,558,872</u>	<u>\$ 444,405</u>	<u>\$ 12,003,277</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements

December 31, 2013

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, 2013 and 2012, 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 \$170,322 in 2013 and \$203,693 in 2012, 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 contact 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 of Financial Instruments :

The Institute's financial instruments consist principally 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.

The fair value of Institute's financial instruments reflects the amount that Institute estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). Generally Accepted Accounting Principles have established a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 – quoted prices in active markets for identical assets and liabilities.

Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 – unobservable inputs.

Much of the disclosure is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. As of December 31, 2013 and 2012, The Institute evaluated the fair value of its investments on a recurring basis. The Institute's investments are recorded at fair value at December 31, 2013 and 2012.

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 2013 and 2012.

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

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

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 at December 31, 2013 and 2012, respectively.

3. Concentrations:

The Institute maintains all cash at Wells Fargo Bank. Accounts at the bank are insured up to \$250,000 by the FDIC at December 31, 2013. At December 31, 2012, under the FDIC Transaction Account Guarantee Program (TAG), all non-interest bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account. Coverage under TAG was in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. This temporary coverage ended on December 31, 2012. The Institute had uninsured cash balances in the amount of \$2,499,126 and \$384,539 at December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, the Institute had outstanding grants receivable (net of allowance for uncollectible amounts) of \$1,444,325 and \$1,465,729 respectively. Management does not anticipate any collection issues on the outstanding receivables in excess of its reserve for uncollectible accounts.

The source of Institute's research grant revenue is primary from one grantor who comprised 36% and 32% of total research grant revenue for the years ended December 31, 2013 and 2012, respectively. In 2013 and 2012, two other grantors comprised 32% and 10% and 29% and 29% of total research grant revenues, respectively.

4. Contingencies:

The Institute is engaged in providing research to the federal government and is subject to the peculiar risks associated with doing business with the government. The Institute is also subject to audit by various federal 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:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Shares in private companies	\$ 76,673	\$ 76,673	\$ 3	\$ 3
Stocks, Options and EFTs	992,968	1,077,141	350	4,249
Bond and equity mutual funds	456,660	551,746	423,901	517,662
TOTAL	\$ 1,526,301	\$ 1,705,560	\$ 424,254	\$ 521,914

Interest and dividends earned on these investments amounted to \$16,379 and \$12,664 for the years ended December 31, 2013 and 2012, respectively. The Institute received capital gain distributions of \$22,386 and \$5,813 in 2013 and 2012 and had net realized gains of \$9,209 and \$0 in the year ended December 31, 2013 and 2012, respectively. Net unrealized gains amounted to \$81,689 and \$43,114 for the year ended December 31, 2013 and 2012, respectively.

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, 2013 and 2012:

Description	Level 1	Level 2	Level 3	Total 2013
Shares in private companies	\$ -	\$ -	\$ 76,673	\$ 76,673
Stocks, Options and EFTs	1,077,141	-	-	1,077,141
Bond and equity mutual funds	551,746	-	-	551,746
Total	\$ 1,628,887	\$ -	\$ 76,673	\$ 1,705,560

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

INTERNATIONAL COMPUTER SCIENCE INSTITUTE

Notes to Financial Statements, (continued)

6. Fair Value of Financial Instruments: (continued)

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, 2013:

	Level
	Investments
Balance at December 31, 2012	\$ 3
Additional investment to shares in private companies	76,670
Balance at December 31, 2013	<u>\$ 76,673</u>

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, 2013 and 2012.

8. Property and Equipment:

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

	2013	2012
Equipment	\$ 3,268,406	\$ 3,197,813
Furniture and fixtures	341,351	340,180
Software	168,308	168,308
Leasehold improvements	892,158	881,708
	<u>4,670,223</u>	<u>4,588,009</u>
Less accumulated depreciation and amortization	(4,462,550)	(4,383,496)
Total	<u>\$ 207,673</u>	<u>\$ 204,513</u>

Depreciation expense was \$80,577 and \$69,218 for the years ended December 31, 2013 and 2012. During 2013, the Institute disposed equipment with a cost basis of \$1,523 and a net book value of \$759.

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

9. Leases:

The Institute renewed its office lease under a non-cancelable operating lease, which expires on March 31, 2018. Rent expense was \$888,471 and \$1,011,611 for the years ended December 31, 2013 and 2012, respectively.

Minimum rental payments under the operating agreements at December 31, 2013 are as follows:

Year Ended June 30:	
2014	\$ 810,673
2015	828,913
2016	847,564
2017	866,634
2018	<u>217,857</u>
Total	\$ <u>3,571,641</u>

10. Capital Lease Obligations:

The Institute leases telephone equipment under a capital lease agreement which expired in 2013. Equipment under the capital lease has an original cost of \$53,210, and a net book value of \$26,605 and \$31,926 at December 31, 2013 and 2012, respectively.

There are no obligations under capital lease agreement at December 31, 2013.

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 \$466,258 and \$412,879 for the years ended December 31, 2013 and 2012, respectively.

12. Line of Credit:

The Institute has a \$700,000 revolving line of credit from Wells Fargo Bank, which expires on July 10, 2014 and which it draws upon from time to time. \$350,000 of 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, 2013 was 5.00%. The line of credit had no unpaid balance at either December 31, 2013 or 2012.

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

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, if any, are not material to the operations of the Institute and are included in operating expense in the period in which they are incurred.

14. Temporarily Restricted Net Assets:

Temporarily restricted net assets amounted to \$733,476 and \$760,234 at December 31, 2013 and 2012, and are restricted to certain types of internet research projects as described in a contract termination agreement. During the years ended December 31, 2013 and 2012 \$26,758 and \$28,226, 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 2009.

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.

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

16. Subsequent Events:

The Institute has evaluated subsequent events through April 14, 2014, the date the financial statements were available to be issued.

INDEPENDENT AUDITORS' 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, 2013, 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 14, 2014.

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 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. 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 14, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR 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, 2013. 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's compliance.

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, 2013.

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 its 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 14, 2014

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Total Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
<u>Research and Development Cluster</u>			
Air Force Research Laboratory/IFED Improving Speaker Recognition	12.300	\$ <u>114,871</u>	\$ _____ -
Total Air Force Research Laboratory/IFED		\$ <u>114,871</u>	\$ _____ -
Intelligence Advanced Research Projects ASR Diagnosis			
	12.000	\$ 162,292	\$ _____ -
SWORDFISH			
	12.000	1,573,416	499,614
Metaphor			
	12.000	<u>2,075,404</u>	<u>444,730</u>
Total Intelligence Advanced Research		\$ <u>3,811,112</u>	\$ <u>944,344</u>
National Institutes of Health Robust Localized Measures for Brain Networks			
	93.853	\$ <u>182,534</u>	\$ _____ -
Total National Institutes of Health		\$ <u>182,534</u>	\$ _____ -
Office of Naval Research Understanding			
	12.300	255,713	-
Netalyzr			
	12.000	<u>281,257</u>	_____ -
Total Office of Naval Research		\$ <u>536,970</u>	\$ _____ -

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Total Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
National Science Foundation			
NeTS-FIND: Collaborative Research: Telationship-Oriented Networking	47.070	\$ 54,065	\$ -
CT-L: Collaborative Research: Comprehensive Application Analysis and Control	47.070	344,444	-
ARRA- HCC: Medium: Collaborative Research: Computer Vision and Online	47.082	31,044	-
NeTS: Small: The Design and Use of a Network Operating System	47.070	144,010	-
CISE/IIS/RI/Program Element 7495: Crowdsourcing for NLP: Exploring Two	47.070	2,845	-
TC: Small: A High-Performance Abstract Machine for Network Intrusion Detection	47.070	78,863	-
CRI on Poor Quality Corpus	47.070	20,739	-
TC: Small: Practical Data Confinement	47.070	84,830	64,143
Enhancing Bro for Operational Network Security	47.080	692,107	456,432
TC:Small: Understanding and Taming the Web's Privacy Footprint	47.070	68,839	-
Architecting for Innovation	47.070	640,159	-
Understanding and Managing the Impact of Global Inference on Online Privacy	47.070	338,356	-
NeTS:Large:Collaborative Research: Measuring and Modeling the Dynamics of IPv4 Address Exhaustion	47.070	141,603	-
NeTS: Small: New Direction in Routing and Traffic Engineering	47.070	88,338	-
LexLink:Aligning WordNet, FrameNet, PropBank and VerbNet	47.070	17,415	-
Student Travel Support for the 2012 Internet Measurement Conference	47.070	9,773	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grant Number</u>	<u>Total Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
NeTs:Medium:Characterizing Enterprise Networks	47.070	\$ 135,525	\$ -
ICES: Small: Evaluation Price mechanisms for Clouds	47.070	92,215	-
NeTS:Small: the Design and Implementation of a Consolidated Middlebox Architecture	47.070	97,419	-
Modeling Human Speech Confusions in Noise	47.070	28,804	-
Understanding and Exploiting Parallelism in Deep Packet Inspection On Concurrent Architectures	47.070	47,133	-
Limiting Manipulation in Data Centers and Clouds	47.070	45,360	-
Combinatorial Optimization Methods for Problems in Molecular Biology	47.070	165,525	73,094
Users Centric	47.070	108,358	-
Frontiers	47.070	383,266	-
Enhancement	47.070	97,723	-
ACM CoNext 2012 Conference Travel Grant	47.070	5,200	-
Career:Art and Vision: Scene Layout from Pictorial Cues	47.070	102,499	-
I-CORPS: Commercializing the Integration of Human and Artificial Intelligence for Large	47.041	50,000	-
Small:Smash-Saclable Multimedia Content Analysis in a High-Level Language	47.070	58,441	-
Designing Individualized Privacy and Security	47.070	23,968	-
FrameNet Workshop: Developing New NLP Applications	47.070	15,075	-
Cortical Responses	47.070	2,610	-
EAGER: Network Virtualization for OpenCloud	47.070	2,113	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grant Number</u>	<u>Total Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
A Bro Center of Expertise for the NSF Community	47.070	\$ 126,570	\$ 11,739
Semantic Security Monitoring for Industrial Control Systems	47.070	<u>12,392</u>	<u>-</u>
Total National Science Foundation		\$ <u>4,357,626</u>	\$ <u>605,408</u>
<u>Pass-through Awards</u>			
Cpacket Networks Inc Cyber-Security and Networking: NIDS Front- End for Load Balancing at 100Gbps	81.049	\$ 60,174	\$ -
Decisive Analytics SBIR PH2: Metadata	12.000	8,053	-
Extracting Event Attributes from Unstructured Textual Data for Persistent Situational Award	12.000	28,224	-
Discovering Valued Information in a Clud Environment(DVICE) Phase II	12.000	29,655	-
SimulaTion and UnDerstanding of EveNts in Text	12.000	808	-
Lawrence Berkeley National Laboratory Bro Intrusion Detection System	81.000	32,092	-
Bro Intrusion Detection System	81.000	14,479	-
Lawrence Livermore National Security Multimedia Feature Extraction & Analysis	81.000	58,094	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

Federal Grantor/ Pass through Grantor/ <u>Program Title</u>	Federal CFDA Number/ <u>Grant Number</u>	Total Federal <u>Expenditures</u>	Amounts Provided to <u>Subrecipients</u>
Massachusetts Institute of Technology POEM (memory system)	HR0011-11-C- 0100	\$ 114,838	\$ -
Nonparametric Representations for intergrated Inference, Control and Sensing	12.910	180,217	-
Raytheon BBN Technologies Corp ASTRAL: Adaptive, Semantic Translation, Retrieval, Analysis and Learning	HR0011-12-C- 0014	167,168	-
SRI International Robust Automatic Transcription of Speech (RATS)	12.910	343,825	-
Aladdin	12.910	307,236	-
The Foundation for California Community Colleges ARRA-California Connects	11.557	225,133	-
The Trustees of Indiana University Hardening Software Defined Networks	12.910	202,494	-
The University of Alabama at Birmingham Resequencing and Functional Studies to Identify Casual Gene Variants of Lymphoma	93.393	6,801	-

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grant Number</u>	<u>Total Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
University of California, Berkeley			
Minds Eye	12.431	\$ 412,364	\$ -
A Cyber Awareness Framework for Attack Analysis, Prediction and Visualization	12.431	<u>66,601</u>	<u>-</u>
Total Pass-through Awards		\$ <u>2,258,256</u>	\$ <u>-</u>
Total Research and Development Cluster		\$ <u>11,261,369</u>	\$ <u>1,549,752</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

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, 2013

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 X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X 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 X No

Identification of major programs:

<u>CFDA/Program Title</u>	<u>Expenditures</u>
Research and Development Cluster	<u>\$ 11,261,369</u>

INTERNATIONAL COMPUTER SCIENCE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2013

Dollar threshold used to distinguish between type A
and type B programs: \$337,841

Auditee qualified as low-risk auditee? X Yes 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.

