

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

CONTENTS

	PAGE
Audited Financial Statements:	
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5
Supplementary Information:	
Schedules of General and Administrative Expenses	6
Schedule of Expenditures of Federal Awards	7
Other Reports and Schedules:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	8
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	9
Schedule of Findings and Questioned Costs	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

We have audited the accompanying statements of financial position of Florida Institute for Human and Machine Cognition, Inc. (IHMC) (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of IHMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IHMC as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of IHMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Board of Directors
Florida Institute for Human and Machine Cognition, Inc.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of IHMC taken as a whole. The accompanying Schedules of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Pensacola, Florida
December 7, 2007

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash	\$ 2,447,490	\$ 962,714
Grants, contracts, and accounts receivable	1,518,060	1,151,982
Pledges receivable	72,496	-
Prepaid expenses and other assets	53,628	38,151
Property and equipment, net	<u>4,585,671</u>	<u>4,329,967</u>
Total Assets	<u><u>\$ 8,677,345</u></u>	<u><u>\$ 6,482,814</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 286,206	\$ 88,375
Accrued payroll and related liabilities	293,062	261,388
Refundable advance	-	73,442
Note payable	<u>4,200,000</u>	<u>4,200,000</u>
Total liabilities	<u><u>4,779,268</u></u>	<u><u>4,623,205</u></u>

Commitments and Contingencies

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Net Assets:

Unrestricted	3,875,348	1,859,609
Temporarily restricted	<u>22,729</u>	<u>-</u>
Total net assets	<u><u>3,898,077</u></u>	<u><u>1,859,609</u></u>

Total Liabilities and Net Assets

<u><u>\$ 8,677,345</u></u>	<u><u>\$ 6,482,814</u></u>
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The accompanying notes are an integral
part of these financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Change in Unrestricted Net Assets:		
Support and Revenue:		
Research and development grants and contracts -		
Federal and pass-through grants	\$ 5,556,503	\$ 2,144,970
Other grants and contracts	2,990,875	3,559,716
Legislative appropriation	2,606,848	-
Contributions	61,467	1,342,909
Contributed facilities and administrative allocation	139,545	157,893
In-kind donations	3,227	290,686
Other revenue	95,721	52,934
	<u>11,454,186</u>	<u>7,549,108</u>
Total support and revenue		
Expenses:		
Program services -		
Research and development grants and contracts	7,936,901	5,898,398
Other program services	19,256	15,365
Total program services	<u>7,956,157</u>	<u>5,913,763</u>
Supporting services -		
Fundraising services -		
Salaries and employee benefits	129,920	-
Other fundraising expenses	11,522	-
	<u>141,442</u>	<u>-</u>
General and administrative	1,399,127	1,725,691
Total supporting services	<u>1,540,569</u>	<u>1,725,691</u>
Total expenses	<u>9,496,726</u>	<u>7,639,454</u>
Excess (deficiency) of support and revenue over expenses	1,957,460	(90,346)
Other:		
Hurricane recovery -		
Legislative appropriation	-	950,000
Insurance proceeds	58,279	-
	<u>58,279</u>	<u>-</u>
Change in unrestricted net assets	<u>2,015,739</u>	<u>859,654</u>

The accompanying notes are an integral
part of these financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)

	<u>2007</u>	<u>2006</u>
Change in Temporarily Restricted Net Assets:		
Contributions	<u>22,729</u>	<u>-</u>
Change in temporarily restricted net assets	<u>22,729</u>	<u>-</u>
Change in Net Assets	2,038,468	859,654
Net Assets, Beginning of Year	<u>1,859,609</u>	<u>999,955</u>
Net Assets, End of Year	<u><u>\$ 3,898,077</u></u>	<u><u>\$ 1,859,609</u></u>

The accompanying notes are an integral
part of these financial statements

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,038,468	\$ 859,654
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	145,796	127,358
Changes in operating assets and liabilities -		
Grants, contracts, and accounts receivable	(366,078)	(825,981)
Pledges receivable	(72,496)	-
Prepaid expenses and other assets	(15,477)	(13,864)
Accounts payable	197,831	(7,170)
Accrued payroll and related liabilities	31,674	27,026
Refundable advance	(73,442)	73,442
Net cash provided by operating activities	<u>1,886,276</u>	<u>240,465</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment	<u>(401,500)</u>	<u>(195,187)</u>
Net cash used in investing activities	<u>(401,500)</u>	<u>(195,187)</u>
Net Increase in Cash	1,484,776	45,278
Cash at Beginning of Year	<u>962,714</u>	<u>917,436</u>
Cash at End of Year	<u>\$ 2,447,490</u>	<u>\$ 962,714</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 210,000</u>	<u>\$ 210,000</u>

The accompanying notes are an integral
part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Florida Institute for Human and Machine Cognition, Inc. (IHMC) was organized as a Florida not-for-profit corporation on February 25, 2004, pursuant to Section 1004.447, Florida Statutes, exclusively as an information-technology related organization for research, education, scientific advancement, and economic development.

Basis of Accounting:

IHMC follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

Basis of Presentation:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of IHMC and changes therein are classified as follows:

Permanently restricted net assets are subject to donor-imposed stipulations that the assets be maintained permanently, but permit IHMC to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. IHMC had no permanently restricted net assets at June 30, 2007 and 2006.

Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of IHMC pursuant to those stipulations or that expire by the passage of time.

Unrestricted net assets are not subject to donor-imposed stipulations, or the donor-imposed restrictions have expired. Unrestricted net assets may be designated for specific purposes by the action of the Board of Directors, or may otherwise be limited by contractual agreements with outside parties.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

Contributions are reported as temporarily restricted if the donor limits the use of the donated assets. When the restrictions expire, these temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as *net assets released from restrictions*. Donor-restricted contributions are classified as unrestricted revenues if the restrictions are met in the same reporting period in which the contributions are received. Non-cash contributions are recorded at fair market value at the time of donation.

In-Kind Contributions:

Support arising from contributed occupancy and donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Donated services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IHMC. The computation of value for the contributions is based on the fair value of the contributed occupancy and donated services at the date received. These in-kind contributions are reported as support and expense in the period received.

Legislative appropriation:

Support from legislative appropriation represents amounts received from the state legislation budget, general revenue fund. This recurring appropriation was originally obtained for the University of West Florida (the University) and was distributed as a contribution to IHMC. For the year ended June 30, 2007, IHMC received this legislative appropriation directly.

Grants and Contracts:

Revenue from grants and contracts, awarded to and accepted by IHMC, is recognized as earned, that is, as the related allowable costs are incurred or the performance of milestones is achieved under the grant or contract agreements.

Facilities and administrative costs recovered on grants and contracts are recorded at rates established by IHMC with its Federal cognizant agency, or predetermined by the non-Federal sponsor. Facilities and administrative cost rates for government grants and contracts are subject to audit, and subsequent final settlements, if any, are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment:

Property and equipment are recorded at cost or at their estimated fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building	30 years
Computers and software	3-5 years
Machinery and equipment	5-10 years
Vehicle	5 years

Additions and betterments of \$5,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Refundable Advance:

Refundable advance represents funds received by IHMC, from a grantor agency, that have not been spent at the end of the year. Advances must be returned to the grantor agency if not spent for their intended purpose within the grant period unless re-appropriated or extended by the grantor.

Advertising Costs:

Advertising costs are expensed when incurred.

Income Taxes:

IHMC received its advance letter ruling from the Internal Revenue Service stating that it is qualified as a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The advance letter ruling ends June 30, 2008, at which time the Internal Revenue Service will make a final determination on IHMC's public charity status. No provision for income taxes has been provided in the accompanying financial statements.

Reclassifications:

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 - GRANTS, CONTRACTS AND ACCOUNTS RECEIVABLE

At June 30, 2007 and 2006, amounts due from grantor and other contracting agencies were as follows:

	<u>2007</u>	<u>2006</u>
Research and development grants and contracts -		
Federal and pass-through grants	\$ 1,139,313	\$ 363,122
Other grants and contracts	365,943	779,916
Other receivables	<u>12,804</u>	<u>8,944</u>
	<u>\$ 1,518,060</u>	<u>\$ 1,151,982</u>

Management considers all grants, contracts and accounts receivable at June 30, 2007 and 2006 to be fully collectible; therefore, no allowance for uncollectible accounts has been established.

The facilities and administrative allocation from the University represents the indirect overhead earned on grants administered through the University. Pursuant to an affiliation agreement entered into with the University, it is required to remit such earnings accruing to IHMC on a monthly basis.

NOTE 3 - PLEDGES RECEIVABLE

Unconditional promises to give at June 30, 2007 are due as follows:

	<u>2007</u>	<u>2006</u>
In one year or less	\$ 11,000	\$ -
Between one and five years	<u>69,000</u>	<u>-</u>
Total pledges receivable	80,000	-
Less discounts to net present value	<u>7,504</u>	<u>-</u>
Net pledges receivable	<u>\$ 72,496</u>	<u>\$ -</u>

The discount rate used to calculate net present value is 5%. Management considers all pledges receivable at June 30, 2007 to be fully collectible; therefore, no allowance for uncollectible pledges has been established. There were no pledges receivable for the year ended June 30, 2006.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,071,400	\$ 1,071,400
Building	3,282,782	3,258,060
Computers and software	239,521	78,997
Machinery and equipment	59,065	21,207
Vehicle	24,130	24,130
Construction in progress - prototype	<u>196,353</u>	<u>17,956</u>
	4,873,251	4,471,750
Less accumulated depreciation and amortization	<u>287,580</u>	<u>141,783</u>
	<u><u>\$ 4,585,671</u></u>	<u><u>\$ 4,329,967</u></u>

Depreciation and amortization expense for the years ended June 30, 2007 and 2006 was \$145,796 and \$127,358, respectively.

Certain fixed assets of IHMC were purchased with federal, state and local grants and contracts. As a result, if such assets are disposed, the granting agency that participated in the funding of the purchase has a contractual right to participate in the proceeds from the disposition. Also, at the end of the project for which the asset was purchased, the granting agency has the right to reclaim such equipment. IHMC accounts for these items separately until final release of the item has been received by IHMC.

NOTE 5 - NOTE PAYABLE

On June 30, 2005, IHMC purchased a building and surrounding lots located at 40 South Alcaniz Street in downtown Pensacola from the University of West Florida Foundation, Inc. (the Foundation). IHMC executed a promissory note to the Foundation in the amount of \$4,200,000 which bears interest at 5%. Interest only payments on the note are due monthly until maturity at June 30, 2008, on which date the entire unpaid principal balance and interest are due and payable. The note payable is collateralized by the building and surrounding lots.

NOTE 6 - NET ASSETS

Temporarily restricted net assets at June 30, 2007 consist of a contribution received with donor imposed restrictions for a specified program and materials. This contribution is restricted until costs are incurred for the donor-restricted purpose. At June 30, 2006, all net assets of IHMC were unrestricted.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 - RETIREMENT PLAN

IHMC established a defined contribution retirement plan that operates under Section 403(b) of the Internal Revenue Code on March 1, 2005. The purpose of the plan is to provide retirement benefits for participating employees. Benefits are provided through Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF). The plan year begins on July 1 and ends on June 30. All benefits under the Plan are fully funded and provided through the funding vehicle(s) selected by the participant. Benefits are not subject to, nor covered by, federal plan termination insurance.

The plan covers substantially all employees except part-time and leased. IHMC contributes 11% of eligible employee's compensation on a bi-weekly basis. Contributions to the plan amounted to \$466,888 in 2007 and \$395,537 in 2006.

In addition to the defined contribution plan, IHMC also established an elective deferral plan with the TIAA CREF. To participate, an eligible employee must enter into a written salary reduction agreement with IHMC. Under the salary reduction agreement, the employee's salary (paid after the agreement is signed) is reduced and the amount of the reduction is applied as premiums to the funding vehicles available under this plan.

NOTE 8 - RELATED PARTY TRANSACTIONS

University of West Florida

Prior to the creation of IHMC as a separate nonprofit entity, the Institute for Human and Machine Cognition (UWF IHMC) performed information-technology research as a research division of the University. To assist in the transition of UWF IHMC activities to IHMC, the University and IHMC have entered into an affiliation agreement (the agreement) that addresses IHMC's use of or participation in University programs and services, including monies, personnel or services, and the use of facilities.

The University holds various accounts that have been earmarked for UWF IHMC. Pursuant to Section 1004.447(6)(a), Florida Statutes, IHMC has continued access to and use of these amounts. During the year ended June 30 2006, the University contributed \$1,305,409 to IHMC from the UWF IHMC accounts. These contributions ended after June 30, 2006. At June 30, 2007 and 2006, the University held \$22,829 and \$21,410, respectively, earmarked for UWF IHMC.

Also as stated in the affiliation agreement, IHMC is entitled to facilities and administrative allocations from the University which represents the indirect overhead earned on grants administered through the University. The contributed facilities and administrative allocations totaled \$139,545 and \$157,893 for the years ended June 30, 2007 and 2006, respectively.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 - RELATED PARTY TRANSACTIONS (Continued)

University of West Florida (Continued):

The University provided in-kind support to IHMC by allowing University employees to offer services to IHMC while continuing to be employed through the University and retaining current level of University benefits. The value of the donated services included as contributions in the financial statements and the corresponding expenses for the years ended June 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
General and administrative salaries	<u>\$ 3,227</u>	<u>\$ 290,686</u>

The affiliation agreement provided IHMC with a charge-back procedure for costs, primarily personnel, incurred by IHMC to complete existing University contractual awards during the transition period. For the year ended June 30, 2007, there were no charge-back amounts invoiced to the University and for the year ended June 30, 2006, charge-back amounts invoiced to the University totaled \$196,642, and are included in other grants and contracts revenue in the accompanying financial statements.

University of West Florida Foundation, Inc.:

As discussed in Note 5, for the years ended June 30, 2007 and 2006, IHMC paid interest to the Foundation in the amount of \$210,000 each year as required by the promissory note.

Board members:

One member of IHMC's Board of Directors is employed by Florida Atlantic University, another is employed at the University of Central Florida, and two members are either employed by or serve on the Board of Trustees for the University, all of which provide funding to IHMC. These individuals are asked to abstain from voting on items before the Board of Directors that will be funded by their respective agencies.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lease commitments:

IHMC occupies two leased office spaces. One lease is for property located at 127 South Alcaniz Street and is dedicated to IHMC's administrative function. This lease expires in September 2011. The other property is located at 100 South Alcaniz and is dedicated to the robot prototype research. This lease expires in November 2011.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Lease commitments (Continued):

Future minimum lease payments under these facility leases are as follows:

Years Ending <u>June 30</u>	
2008	\$ 85,698
2009	88,756
2010	92,707
2011	95,107
2012	<u>31,398</u>
	<u>\$ 393,666</u>

Contingencies:

Grants and contracts require the fulfillment of certain conditions as set forth in the applicable agreements. Failure to fulfill the conditions could result in the return of funds to the grantors or contracting agencies. Although that is a possibility, IHMC deems the contingency remote, since by acceptance of the grants and contracts and their terms, it has structured the objectives of IHMC to meet the provisions of the agreements.

Concentration of credit risk - uninsured cash balances:

IHMC maintains cash balances with three banks. Demand deposit accounts at the banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Although balances may periodically exceed the FDIC insurance limit, management monitors the soundness of each financial institution and feels IHMC's risk is negligible. At June 30, 2007, IHMC's uninsured cash balances totaled approximately \$2,362,000.

Concentration of contract and grant receivables:

Approximately 49% of IHMC's contract and grant receivables is provided through agreements with the Office of Naval Research.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 10 - LEGISLATIVE APPROPRIATION - HURRICANE RELIEF FUNDING

In September 2005, IHMC received \$950,000 from the Department of Community Affairs in connection with a Hurricane Relief Funding appropriation from the State Legislature. These funds were earmarked to defray expenses and costs related to Hurricane damage and repairs incurred in the fiscal year 2004-2005.

SUPPLEMENTARY INFORMATION

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Salaries, including in-kind services	\$ 1,670,654	\$ 1,763,163
Payroll taxes	118,711	106,306
Employee benefit programs	232,198	194,323
Administrative travel	128,329	117,182
Meals and entertainment	21,960	14,565
Insurance	58,563	55,534
Legal and professional	428,033	316,209
Occupancy, including in-kind	211,131	199,864
Interest expense	210,000	210,000
Repairs and maintenance	44,541	146,801
Office expenses	134,213	93,651
Supplies	76,605	52,846
Telephone	119,883	107,338
Advertising expense	25,442	11,464
Lobbying costs	138,110	78,759
Licenses and fees	10,158	12,464
Memberships and continuing education	28,460	16,435
Community relations	6,459	1,721
Employee morale and welfare	13,347	9,305
Other	21,402	22,631
Depreciation and amortization	145,796	127,358
Indirect applied overhead, payroll taxes and employee benefits	<u>(2,444,868)</u>	<u>(1,932,228)</u>
Total General and Administrative Expenses	<u><u>\$ 1,399,127</u></u>	<u><u>\$ 1,725,691</u></u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<u>Research and Development Cluster:</u>			
<u>Office of Naval Research</u>			
Coordinated Operations of Humans, Agents, and Unmanned Vehicles for Littoral Warfare	12.300	N00014-06-1-0775	\$ 1,815,002
Sensory Substitution for Wounded Servicemembers	12.300	N00014-07-1-0790	820,277
Rapidly Customizable Spoken Dialogue Language	12.300	N00014-05-1-0314	94,391
Human Systems Technology	12.300	N00014-05-1-0695	<u>69,881</u>
Total Office of Naval Research			<u>2,799,551</u>
<u>Army Research Laboratory</u>			
Agile Computing for Army Future Combat Missions	12.431	W911NF-05-2-0051	127,088
Passed through University of Central Florida			
Team Performance in Optimization in Human-Agent Collaboration	12.114	W911NF-06-2-0041	612,801
Passed through Florida Institute of Technology			
Biologically Inspired Security Infrastructure for Tactical Environments	12.630	W911NF-07-2-0022	<u>140,266</u>
Total Army Research Laboratory			<u>880,155</u>
<u>Department of the Air Force,</u>			
<u>Air Force Research Laboratory</u>			
Agile Computing Air Force Information Management Infrastructure	12.800	FA8750-06-2-0064	270,701
Rapid COI Infospace Creation and Deployment Using Kaos and Cmaps	12.800	FA8750-06-2-0065	153,207
Seamless and Secure Federation Among Highly-and-Loosely-Connected Infospaces	12.800	FA8750-07-2-0174	11,795
A Cross-Layer Communication Substrate for Tactical Information Management Systems	12.800	FA8750-07-2-0185	2,186
Air Force Office of Scientific Research, Passed through Dartmouth College			
On the Effects of Culture and Society on Adversarial Attitudes and Behaviors	12.800	5-36195.5710	<u>68,925</u>
Total Department of the Air Force			<u>506,814</u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007
(Continued)

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<u>Defense Advanced Research Projects Agency</u>			
Urban Warrior Robot: A Reconfigurable Robot for Urban Operations	12.910	HR0011-05-C-0070	351,257
Integrated Learning from Observation, Language, and Pracrice	12.910	HR0011-06-1-0035	236,757
Passed through SRI International			
Cognitive Assistant that Learns and Observes	12.910	55-000767	408,582
Total Defense Advanced Research Projects Agency			996,596
<u>National Aeronautics and Space Administration, Ames Research Center</u>			
Composing the Right Mix of Humans and Technology for Lunar Surface Exploration	43.001	NNA06CB46A	243,710
Embedded Real-Time Advisory System for Crew-Automation Reliability	43.002	NNA05CS60A	4,244
Total National Aeronautics and Space Administration			247,954
<u>National Science Foundation</u>			
Issues in Maintaining Scientific Integrity in Application of Automated Methodology	47.075	SES-0551833	106,769
<u>National Institutes of Health</u>			
Passed through the University of Pittsburgh			
Novel Glaucoma Diagnostics for Structure and Function	93.867	NIH 2 R01 EY013178-06	18,664
Total Research and Development Cluster and Expenditures of Federal Awards			\$ 5,556,503

NOTE: This schedule is presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

OTHER REPORTS AND SCHEDULES

**INDEPENDENT AUDITOR'S 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 Directors
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

We have audited the financial statements of Florida Institute for Human and Machine Cognition, Inc. (IHMC) (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects IHMC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the IHMC's financial statements that is more than inconsequential will not be prevented or detected by the IHMC's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

Board of Directors
Florida Institute for Human and Machine Cognition, Inc.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by IHMC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of IHMC's audit committee, Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida
December 7, 2007

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

To the Board of Directors
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

Compliance

We have audited the compliance of the Florida Institute for Human and Machine Cognition, Inc. (IHMC) (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. IHMC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of IHMC's management. Our responsibility is to express an opinion on IHMC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IHMC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on IHMC's compliance with those requirements.

In our opinion, IHMC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of IHMC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered IHMC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 IHMC's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida
December 7, 2007

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Florida Institute for Human and Machine Cognition, Inc.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditor's 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*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Florida Institute for Human and Machine Cognition, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit nor reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for major federal award programs for the Florida Institute for Human and Machine Cognition, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included the following:

Research and Development Cluster:

Collaborative Research and Development	CFDA No. 12.114
Basic and Applied Scientific Research	CFDA No. 12.300
Basic Scientific Research	CFDA No. 12.431
Basic, Applied, and Advanced Research in Science and Engineering	CFDA No. 12.630
Air Force Defense Research Sciences Program	CFDA No. 12.800
Research and Technology Development	CFDA No. 12.910
Aerospace Education Services Program	CFDA No. 43.001
Technology Transfer	CFDA No. 43.002
Social, Behavioral and Economic Sciences	CFDA No. 47.075
Vision Research	CFDA No. 93.867

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Florida Institute for Human and Machine Cognition, Inc. was not determined to be a low-risk auditee.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Deficiency

2007-1 Segregation of Duties

Auditor's comment:

Due to the small size of IHMC's staff, there is a lack of segregation of duties. The lack of segregation creates instances in which one individual may perform both custodial and recording functions of certain assets. The basic premise of control is that no one employee should have access to both physical assets and related accounting records or to all phases of a transaction.

We noted during the course of our fieldwork in November 2007 that improvements had been implemented in June 2007 to address our previous segregation of duties finding in 2006. As these procedures were not in place during the current period under audit they were not tested as part of the audit procedures. Our finding is based on the conditions as they existed during the audit period.

Management's response:

It is IHMC's intention to continue the fraud control policy as implemented.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs relating to the major federal programs which are required to be reported in accordance with OMB Circular A-133.