

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

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## 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, 2009 and 2008, 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009, 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.

A handwritten signature in cursive script, reading "Saltmarsh Cleveland & Lund".

Pensacola, Florida  
October 23, 2009

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash	\$ 3,178,058	\$ 2,221,968
Grants, contracts, and accounts receivable	2,405,077	2,059,400
Pledges receivable	123,719	154,094
Prepaid expenses	47,673	43,416
Property and equipment, net	6,846,516	6,183,381
Financing costs and other assets, net	<u>91,203</u>	<u>128,197</u>
<b>Total Assets</b>	<u><u>\$ 12,692,246</u></u>	<u><u>\$ 10,790,456</u></u>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 585,436	\$ 205,647
Accrued payroll and related liabilities	343,653	330,120
Refundable advances	1,036,395	368,811
Note payable	<u>4,188,260</u>	<u>4,284,658</u>
Total liabilities	<u><u>6,153,744</u></u>	<u><u>5,189,236</u></u>

**Commitments and Contingencies**

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**Net Assets:**

Unrestricted	6,421,717	5,451,838
Temporarily restricted	<u>116,785</u>	<u>149,382</u>
Total net assets	<u><u>6,538,502</u></u>	<u><u>5,601,220</u></u>

**Total Liabilities and Net Assets**

<u><u>\$ 12,692,246</u></u>	<u><u>\$ 10,790,456</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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Change in Unrestricted Net Assets:</b>		
<b>Support, Revenue and Reclassifications:</b>		
Research and development grants and contracts -		
Federal and pass-through grants	\$ 5,862,615	\$ 6,529,852
Other grants and contracts	3,727,495	2,596,652
Legislative appropriation	1,504,000	2,873,636
Contributions	55,808	766,183
Contributed facilities and administrative allocation	139,845	122,239
In-kind donations	28,305	6,472
Other revenue	45,127	82,414
Net assets released from restrictions	45,748	11,283
	<u>11,408,943</u>	<u>12,988,731</u>
Total support, revenue and reclassifications		
	<u>11,408,943</u>	<u>12,988,731</u>
<b>Expenses:</b>		
Program services -		
Research and development grants and contracts	8,678,928	8,739,160
Other program services	11,124	30,210
Total program services	<u>8,690,052</u>	<u>8,769,370</u>
Supporting services -		
Fundraising services -		
Salaries and employee benefits	10,786	146,533
Other fundraising expenses	50	11,475
	<u>10,836</u>	<u>158,008</u>
General and administrative	1,738,176	2,435,096
Total supporting services	<u>1,749,012</u>	<u>2,593,104</u>
Total expenses	<u>10,439,064</u>	<u>11,362,474</u>
Change in unrestricted net assets	<u>969,879</u>	<u>1,626,257</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, 2009 AND 2008**  
**(Continued)**

	<u>2009</u>	<u>2008</u>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	13,151	88,169
Net assets released from restrictions	<u>(45,748)</u>	<u>(11,283)</u>
Change in temporarily restricted net assets	<u>(32,597)</u>	<u>76,886</u>
<b>Change in Net Assets</b>	937,282	1,703,143
<b>Net Assets, Beginning of Year</b>	<u>5,601,220</u>	<u>3,898,077</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 6,538,502</u></u>	<u><u>\$ 5,601,220</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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 937,282	\$ 1,703,143
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	322,346	255,637
Donated equipment	-	(700,000)
Changes in operating assets and liabilities -		
Grants, contracts, and accounts receivable	(345,677)	(541,340)
Pledges receivable	30,375	(81,598)
Prepaid expenses	(4,257)	3,921
Accounts payable	379,789	(80,559)
Accrued payroll and related liabilities	13,533	37,058
Refundable advance	667,584	368,811
Net cash provided by operating activities	<u>2,000,975</u>	<u>965,072</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	<u>(968,487)</u>	<u>(1,151,877)</u>
Net cash used in investing activities	<u>(968,487)</u>	<u>(1,151,877)</u>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from note payable	-	15,534
Principal payments of note payable	(96,398)	(7,842)
Expenditures for financing costs	-	(46,409)
Refund of financing costs	20,000	-
Net cash used in financing activities	<u>(76,398)</u>	<u>(38,717)</u>
<b>Net Increase (Decrease) in Cash</b>	956,090	(225,522)
<b>Cash at Beginning of Year</b>	<u>2,221,968</u>	<u>2,447,490</u>
<b>Cash at End of Year</b>	<u><u>\$ 3,178,058</u></u>	<u><u>\$ 2,221,968</u></u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<u><u>\$ 187,869</u></u>	<u><u>\$ 206,381</u></u>
Noncash financing transaction -		
Note payable issued for refinance of purchase of property	<u><u>\$ -</u></u>	<u><u>\$ 4,292,500</u></u>
Noncash investing activity transaction -		
Contribution of equipment	<u><u>\$ -</u></u>	<u><u>\$ 700,000</u></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, 2009 AND 2008**

**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, 2009 and 2008.

*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, 2009 AND 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Legislative appropriation:*

Support from legislative appropriation represents amounts received from the state legislation budget, general revenue fund.

*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.

Unconditional promises to give are reported when the pledges are received at the present value of their net realizable value. Conditional promises to give are not recorded in the financial statements.

Noncash contributions are recorded at fair market value at the time of donation. During 2008, IHMC accepted a noncash donation of equipment with a value of approximately \$700,000.

*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.

*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, 2009 AND 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financing costs:*

Financing costs, including legal and other expenses associated with the issuance of IHMC's debt, have been capitalized and are being amortized on a straight-line basis over the terms of the related debt. Accumulated amortization was \$18,463 and \$1,470 at June 30, 2009 and 2008, respectively.

*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 grantor agencies 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 is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as a public charity. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

*Subsequent Events:*

Management has evaluated subsequent events through October 23, 2009, the date which the financial statements were available for issue.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 2 - GRANTS, CONTRACTS AND ACCOUNTS RECEIVABLE**

At June 30, 2009 and 2008, amounts due from grantor and other contracting agencies were as follows:

	2009	2008
Research and development grants and contracts -		
Federal and pass-through grants	\$ 855,213	\$ 1,333,445
Other grants and contracts	994,704	722,740
Economic Development Administration grant	513,921	-
Other receivables	41,239	3,215
	<u>\$ 2,405,077</u>	<u>\$ 2,059,400</u>

Management considers all grants, contracts and accounts receivable at June 30, 2009 and 2008 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, 2009 and 2008 are due as follows:

	2009	2008
In one year or less	\$ 57,303	\$ 48,730
Between one and five years	82,789	123,435
Total pledges receivable	140,092	172,165
Less discounts to net present value	16,373	18,071
Net pledges receivable	<u>\$ 123,719</u>	<u>\$ 154,094</u>

The discount rates used to calculate net present value range from 3-5%.

Management considers all pledges receivable at June 30, 2009 and 2008 to be fully collectible; therefore, no allowance for uncollectible pledges has been established.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 1,142,640	\$ 1,142,640
Buildings	3,923,945	3,923,945
Computers and software	612,026	584,677
Machinery and equipment	767,360	759,065
Vehicle	24,130	24,130
Art collection	3,750	3,750
Construction in progress - Ocala facility	909,775	-
Construction in progress - prototype	309,988	286,921
	<u>7,693,614</u>	<u>6,725,128</u>
Less accumulated depreciation and amortization	<u>847,098</u>	<u>541,747</u>
	<u><u>\$ 6,846,516</u></u>	<u><u>\$ 6,183,381</u></u>

Depreciation and amortization expense for property and equipment for the years ended June 30, 2009 and 2008 was \$305,353 and \$254,167, 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.

In September 2008, IHMC received a grant for \$958,300 from the U.S. Department of Commerce's Economic Development Administration (EDA) for the renovation of the Ocala, FL facility. The grant restricts the use of the building to research and development, unless an alternate purpose is approved by the grantor agency administrators. The EDA has determined the useful life of the project for purposes of this restriction to be 20 years.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 5 - NOTE PAYABLE**

In May 2008, the Pensacola-Escambia County Promotion and Development Commission ("the Commission") issued \$4,292,500 industrial revenue bonds to provide financial assistance to IHMC for the refinance of debt with the University of West Florida Foundation, Inc. The bonds are payable solely from payments received from the underlying financing agreement with a term of 7 years, bearing interest at a rate of 4.43%, and secured by the property financed. Upon repayment of the bonds, ownership of the facilities transfers to IHMC. Pursuant to the financing and leasing agreements, IHMC has agreed to make rental payments to the Commission sufficient to pay all principal and interest amounts. IHMC executed and delivered a promissory note to the Commission, who has assigned to a Lender all rights to receive payments from IHMC related to these agreements. The Commission has no obligation in any manner for repayment of the bonds.

Maturities of the note payable are as follows:

Year ending June 30,

2010	\$ 100,756
2011	105,311
2012	110,073
2013	115,049
2014	120,250
Thereafter	<u>3,636,821</u>
Total	<u>\$ 4,188,260</u>

**NOTE 6 - NET ASSETS**

Temporarily restricted net assets at June 30, 2009 and 2008 consist of a donor restricted contribution for use on the "I Love Science" program, and unconditional promises to give with payments due in future periods to be use for the activities of IHMC. These contributions are restricted until they have been used for the donor-restricted purpose or until lapse of time when the promises become due.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 7 - RETIREMENT PLANS**

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 \$585,531 in 2009 and \$564,062 in 2008.

In addition to the defined contribution plan, IHMC also established an elective deferral plan with 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.

During the year ended June 30, 2009, IHMC established an elective deferral plan that operates under Section 457(b) of the Internal Revenue Code. 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's provider, Edward Jones.

**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. At June 30, 2009 and 2008, the University held \$3,792 and \$11,987, respectively, earmarked for UWF IHMC.



**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 8 - RELATED PARTY TRANSACTIONS (Continued)**

*University of West Florida (Continued):*

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 \$139,845 and \$122,239 for the years ended June 30, 2009 and 2008, respectively.

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 and expenses included as contributions in the financial statements for the years ended June 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
General and administrative salaries	\$ 28,305	\$ 4,226
Operating expenses	<u>-</u>	<u>2,246</u>
	<u>\$ 28,305</u>	<u>\$ 6,472</u>

*University of West Florida Foundation, Inc.:*

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. In the year ended June 30, 2008, IHMC paid interest to the Foundation in the amount of \$206,381 as required by the promissory note. As discussed in Note 5, the note payable to the Foundation was refinanced in May 2008.

*Board members:*

One member of IHMC's Board of Directors serves on the Board of Trustees for the University, which provides funding to IHMC. This individual is asked to abstain from voting on items before the Board of Directors that will be funded by the University.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**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.

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

Years Ending June 30	
2010	\$ 92,707
2011	95,107
2012	<u>31,398</u>
	<u>\$ 219,212</u>

Rental expense for these leases for the years ended June 30, 2009 and 2008 was \$89,628 and \$76,010, respectively.

*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.

In July 2008, IHMC received an Economic Incentive Grant for \$550,000 from the Marion County Board of County Commissioners (the County). The grant funding is to be used at IHMC's discretion for recruitment, advertising, operations and administration associated with the start up of the research facility in Ocala, FL. The grant requires IHMC to comply with various conditions for the employment and compensation of employees at the facility over a specified time period. Failure to comply with these conditions could result in the return of all or part of the grant funding to the County. The \$550,000 has not been expended at June 30, 2009, and therefore, is included in refundable advances in the accompanying statements of financial position.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)**

*Concentration of credit risk - uninsured cash balances:*

IHMC maintains cash balances with two banks. Demand deposit accounts at the banks were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 through September 2008. In October 2008, FDIC coverage was temporarily increased to \$250,000 at each financial institution. Also, unlimited coverage is now temporarily provided for non-interest bearing transaction accounts at financial institutions participating in FDIC's Transaction Account Guarantee Program. Although balances may periodically exceed the FDIC insurance limit, management monitors the soundness of each financial institution and feels IHMC's risk is negligible.

In addition to the FDIC coverage, the demand deposit accounts held at one bank are also protected under the Chapter 280, Florida Statutes, Public Fund Deposit Collateral Program. At June 30, 2009, the carrying amount of IHMC's deposits at this institution was \$3,051,253, and the bank balance was \$3,333,425, all of which is considered to be fully insured.

At June 30, 2009, IHMC's cash balances were considered to be fully insured.

On January 1, 2014, FDIC coverage is scheduled to return to \$100,000 per institution for most cash balances.

## **SUPPLEMENTARY INFORMATION**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Salaries, including in-kind services	\$ 2,135,348	\$ 2,327,675
Payroll taxes	130,207	168,032
Employee benefit programs	303,910	321,495
Administrative travel	141,578	182,845
Meals and entertainment	18,178	22,767
Insurance	85,802	67,466
Legal and professional	367,809	552,049
Occupancy, including in-kind	333,193	259,363
Interest expense	187,869	206,381
Repairs and maintenance	40,880	89,567
Office expenses	113,745	95,961
Supplies	213	32,314
Telephone	101,986	92,539
Advertising expense	2,111	15,711
Lobbying costs	148,310	157,560
Licenses and fees	16,530	9,247
Memberships and continuing education	24,048	23,460
Community relations	2,890	2,199
Employee morale and welfare	12,239	15,874
Other	22,819	30,522
Depreciation and amortization	322,346	255,637
Indirect applied overhead, payroll taxes and employee benefits	<u>(2,773,835)</u>	<u>(2,493,568)</u>
<b>Total General and Administrative Expenses</b>	<u><u>\$ 1,738,176</u></u>	<u><u>\$ 2,435,096</u></u>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2009**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<b><u>Research and Development Cluster:</u></b>			
<b><u>Office of Naval Research</u></b>			
Sensory Substitution for Wounded Servicemembers	12.300	N00014-07-1-0790	\$ 241,043
Generic Dialogue Technology for Human-Robot Coordination	12.300	N00014-08-1-0979	135,904
Systematically Enabled Network Search	12.300	N00014-09-1-0431	102,027
An Agile Computing Approach to a Flexible and Adaptive Information Dissemination System	12.300	N00014-09-1-0012	92,537
Assistive Tech	12.300	N00014-09-1-0800	259,746
Deep Spatial Processing of Natural Language	12.630	HM1582-07-1-2038	159,938
Evidence Based Paraconsistency	12.630	HM1582-07-1-2039	128,527
Policy-Governed Data Fusion	12.630	W911NF-07-2-0088	159,198
<b><u>Passed through Bucknell University</u></b>			
UGV Mobility & Coordination in Joint Urban/Littoral Environments	12.300	N00014-09-1-0913-01	60,368
Unmanned Ground Vehicle Mobility in Urban Terrain	12.300	N00014-08-1-0953	281,437
<b>Total Office of Naval Research</b>			<u>1,620,725</u>
<b><u>Defense Threat Reduction Agency</u></b>			
Brain Activity Modeling of Multisensory Interface Effectiveness	12.351	HDTRA1-09-1-0010	51,282
<b><u>Army Research Laboratory</u></b>			
Agile Computing for Army Future Combat Missions	12.431	W911NF-05-2-0051	125,300
<b><u>Passed through University of Central Florida</u></b>			
Team Performance and Optimization in Human-Agent Collaboration - Year 2	12.114	W911NF-06-2-0041	35,669
<b><u>Passed through Florida Technological Institute</u></b>			
Biologically Inspired Security Infrastructure for Tactical Environments Year 2	12.630	W911NF-08-2-0023	465,803
<b>Total Army Research Laboratory</b>			<u>626,772</u>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2009**  
**(Continued)**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<b><u>Department of the Air Force,</u></b>			
<b>Air Force Research Laboratory</b>			
Technical Community Research Agenda for Facilitating the Achievement and Retention of Expertise	12.800	FA8650-09-2-6033	12,300
Process Integrated Mechanism for Human-Computer Collaboration and Coordination	12.800	FA9550-08-1-0218	743,197
Seamless and Secure Federation Among Highly-and-Loosely-Connected Infospaces	12.800	FA8750-07-2-0174	340,762
A Cross-Layer Communication Substrate for Tactical Information Management Systems	12.800	FA8750-07-2-0185	112,816
<b>Air Force Office of Scientific Research,</b>			
<b>Asian Office of Aerospace R&amp;D</b>			
Robust Human-Machine Problem Solving	12.800	FA2386-09-1-4005	66,321
<b>Air Force Office of Scientific Research,</b>			
<b>Passed through Dartmouth College</b>			
On the Effects of Culture and Society on Adversarial Attitudes and Behaviors	12.800	5-36195.5710	29,242
<b>Total Department of the Air Force</b>			1,304,638
<b><u>Defense Advanced Research Projects Agency</u></b>			
Integrated Learning from Observation, Language, and Practice	12.910	HR0011-06-1-0035	189,495
<b>Passed through SRI International</b>			
Cognitive Assistant that Learns and Observes - Year 5	12.910	55-000767	467,679
<b>Total Defense Advanced Research Projects Agency</b>			657,174
<b><u>National Aeronautics and Space Administration,</u></b>			
<b><u>Ames Research Center</u></b>			
Lunar Exploration Advanced Concepts Study	43.001	NNX08AU09A	951,266
Flexible Roving Exploration Device Study	43.001	NNX07AT78G	41,535
<b>Total National Aeronautics and Space Administration</b>			992,801

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2009**  
**(Continued)**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<b><u>National Science Foundation</u></b>			
Issues in Maintaining Scientific Integrity in Application of Automated Methodology	47.075	SES-0551833	196
IKL Reasoning Engine	47.070	HS-0742022	<u>73,875</u>
<b>Total National Science Foundation</b>			<u>74,071</u>
<b><u>National Institutes of Health</u></b>			
<b>Passed through the University of Pittsburgh</b>			
Novel Glaucoma Diagnostics for Structure and Function	93.867	NIH 2 R01 EY013178-06	<u>15,683</u>
<b>Total Research and Development Cluster</b>			<u>5,343,146</u>
<b><u>Department of Labor</u></b>			
<b>Passed through Florida's Great Northwest</b>			
Workforce in Regional Economic Development (WIRED)	17.261		<u>5,548</u>
<b><u>Department of Commerce</u></b>			
<b><u>Economic Development Administration</u></b>			
Economic Adjustment Program / Building Renovation to Establish a Research/Innovation Center	11.307	04-79-06096	<u>513,921</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 5,862,615</u></u>

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, 2009, and have issued our report thereon dated October 23, 2009. 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.

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 IHMC's internal control.

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.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 management, the audit committee, the 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  
October 23, 2009

**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, 2009. 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, 2009.

### **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 IHMC'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 IHMC'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 IHMC'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 IHMC'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. 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, the 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  
October 23, 2009

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**A. SUMMARY OF AUDITOR'S 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. No significant deficiencies in internal control related to the audit of the financial statements were 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*.
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 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. Our audit disclosed no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 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 Science Research – Combating Weapons of Mass Destruction	CFDA No. 12.351
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
Computer and Information Science and Engineering	CFDA No. 47.070
Social, Behavioral and Economic Sciences	CFDA No. 47.075
Vision Research	CFDA No. 93.867

Economic Adjustment Assistance	CFDA No. 11.307
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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 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, 2009**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

There were no findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

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

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

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2009**

**RESEARCH AND DEVELOPMENT CLUSTER**

**Significant Deficiency**

**2008-2 Subrecipient Monitoring**

*Auditor's comment:*

During the 2008 audit, we noted that IHMC did not sufficiently monitor subrecipient awards. Although IHMC's agreements for services require subrecipients to provide audit and compliance reports, certain program managers for federal grants did not sufficiently monitor the receipt of these reports. In accordance with U.S. Office of Management and Budget (OMB) Circular A-110, federal funds passed through to a subrecipient should be appropriately monitored and the subrecipient should be properly informed of all grant requirements, including the need for an audit when required.

*Recommendation:*

We recommended that the Director of Sponsored Research in conjunction with the federal award program managers monitor the audit requirements of subrecipients, including the related audit report submission, to ensure proper maintenance of federal pass-through awards.

*Current Status:*

During the year ended June 30, 2009, IHMC implemented procedures for monitoring the receipt of subrecipient audit and compliance reports. No similar findings were noted in the 2009 audit.



**REPORT ON COMPLIANCE  
WITH BOND RESOLUTION**

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, 2009, and have issued our report thereon dated October 23, 2009. 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.

In connection with our audit, nothing came to our attention that caused us to believe that IHMC failed to comply with the covenants of the resolution relating to the Revenue Bonds (Florida Institute for Human and Machine Cognition, Inc. Project), Series 2008 issued by the Pensacola-Escambia County Promotion and Development Commission as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, and the Pensacola-Escambia County Promotion and Development Commission, and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida  
October 23, 2009