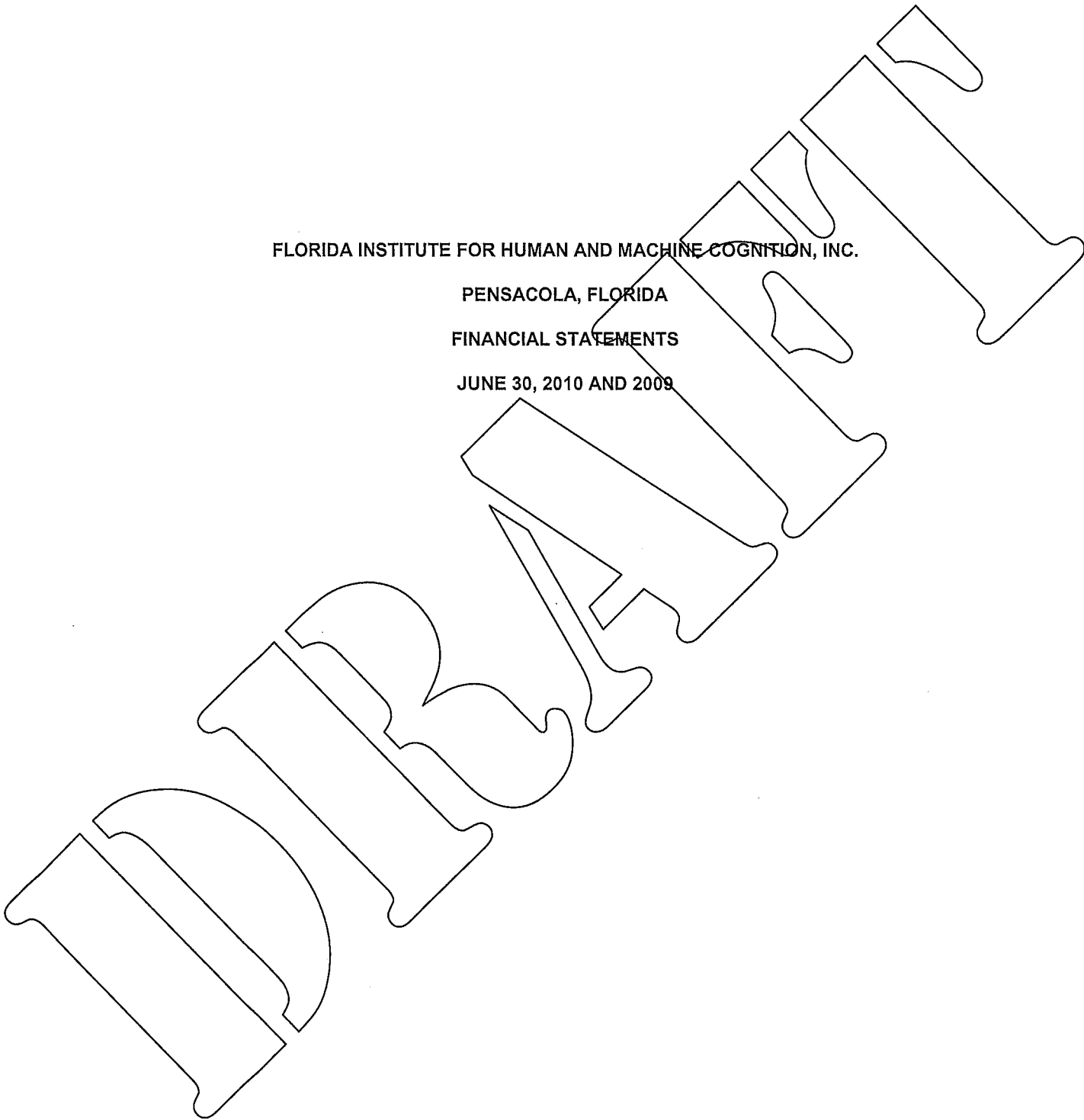


**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**



FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

CONTENTS

	PAGE
<b>Audited Financial Statements:</b>	
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7
<b>Supplementary Information:</b>	
Schedules of General and Administrative Expenses	16
Schedule of Expenditures of Federal Awards	17
<b>Other Reports and Schedules:</b>	
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>	20
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	22
Schedule of Findings and Questioned Costs	24
Report on Compliance with Bond Resolution	26

# Saltmarsh

Saltmarsh, Cleaveland & Gund

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## 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, 2010 and 2009, 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, 2010 and 2009, 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 11, 2010, 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  
October 11, 2010

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

**ASSETS**

	2010	2009
Cash	\$ 3,238,446	\$ 3,178,058
Grants, contracts, and accounts receivable	1,892,466	2,405,077
Pledges receivable	62,907	123,719
Prepaid expenses	21,564	47,673
Property and equipment, net	7,627,401	6,846,516
Financing costs and other assets, net	76,593	91,203
<b>Total Assets</b>	<b>\$ 12,919,377</b>	<b>\$ 12,692,246</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities:</b>		
Accounts payable	\$ 229,361	\$ 585,436
Accrued payroll and related liabilities	426,862	343,653
Refundable advances	1,039,697	1,036,395
Note payable	4,087,503	4,188,260
Total liabilities	5,783,423	6,153,744
<b>Commitments and Contingencies</b>	--	--
<b>Net Assets:</b>		
Unrestricted	7,069,266	6,421,717
Temporarily restricted	66,688	116,785
Total net assets	7,135,954	6,538,502
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,919,377</b>	<b>\$ 12,692,246</b>

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, 2010 AND 2009**

	2010	2009
<b>Change in Unrestricted Net Assets:</b>		
<b>Support, Revenue and Reclassifications:</b>		
Research and development grants and contracts -		
Federal and pass-through grants	\$ 6,766,421	\$ 5,862,618
Other grants and contracts	3,398,204	3,727,495
Legislative appropriation	1,055,016	1,504,000
Contributions	14,839	55,808
Contributed facilities and administrative allocation	110,026	139,845
In-kind donations	3,306	28,305
Other revenue	10,974	45,127
Net assets released from restrictions	46,072	45,748
Total support, revenue and reclassifications	11,404,858	11,408,943
<b>Expenses:</b>		
Program services -		
Research and development grants and contracts	9,092,993	8,678,928
Other program services	22,200	11,124
Total program services	9,115,193	8,690,052
Supporting services -		
Fundraising services -		
Salaries and employee benefits	12,150	10,786
Other fundraising expenses	60,314	50
General and administrative	72,464	10,836
Total supporting services	1,569,652	1,738,176
Total expenses	10,757,309	10,439,064
Change in unrestricted net assets	647,549	969,879

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, 2010 AND 2009**  
**(Continued)**

	2010	2009
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	27,000	13,151
Loss from uncollectible restricted pledges	(31,025)	-
Net assets released from restrictions	(46,072)	(45,748)
Change in temporarily restricted net assets	(50,097)	(32,597)
<b>Change in Net Assets</b>	597,452	937,282
<b>Net Assets, Beginning of Year</b>	6,538,502	5,601,220
<b>Net Assets, End of Year</b>	\$ 7,135,954	\$ 6,538,502

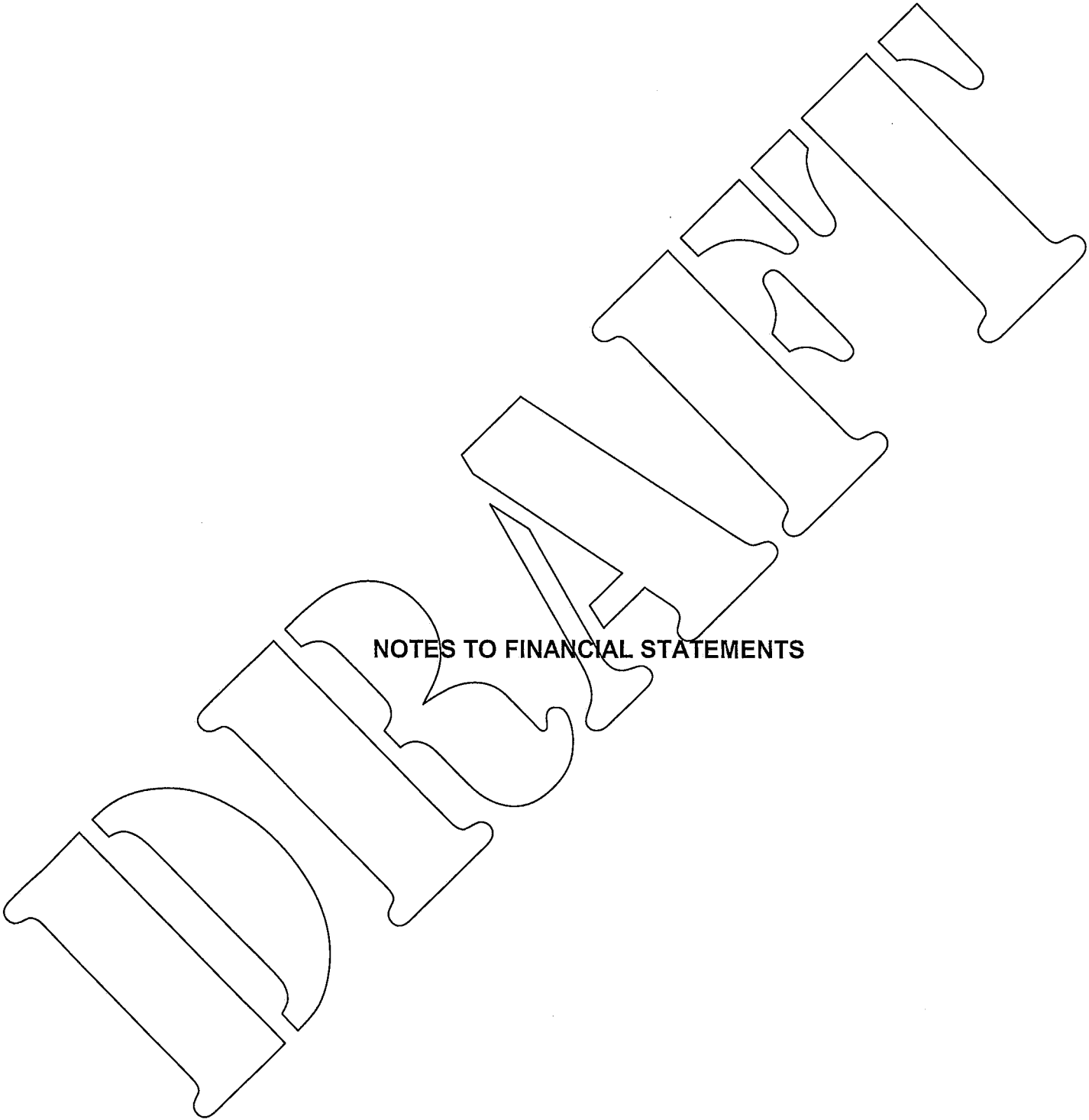
The accompanying notes are an integral part of these financial statements.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 597,452	\$ 937,282
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	371,637	322,346
Bad debt expense	243,535	-
Loss on uncollectible restricted pledges	31,025	-
Changes in operating assets and liabilities -		
Grants, contracts, and accounts receivable	269,076	(345,677)
Pledges receivable	29,787	30,375
Prepaid expenses	26,109	(4,257)
Deposits	(1,500)	-
Accounts payable	(356,075)	379,789
Accrued payroll and related liabilities	83,209	13,533
Refundable advance	3,302	667,584
Net cash provided by operating activities	1,297,557	2,000,975
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(1,136,412)	(968,487)
<b>Cash Flows From Financing Activities:</b>		
Principal payments of note payable	(100,757)	(96,398)
Refund of financing costs	-	20,000
Net cash used in financing activities	(100,757)	(76,398)
<b>Net Increase in Cash</b>	60,388	956,090
<b>Cash at Beginning of Year</b>	3,178,058	2,221,968
<b>Cash at End of Year</b>	\$ 3,238,446	\$ 3,178,058
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	\$ 183,510	\$ 187,869

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, 2010 AND 2009**

**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, 2010 and 2009.

*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, 2010 AND 2009**

**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.

*In-Kind Contributions:*

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.

*Reclassifications:*

Certain reclassifications have been made to previously reported 2009 amounts to conform to the 2010 presentation. These reclassifications had no effect on previously reported net assets.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**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 \$34,573 and \$18,463 at June 30, 2010 and 2009, 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 11, 2010, the date which the financial statements were available for issue.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

At June 30, 2010 and 2009, amounts due from grantor and other contracting agencies were as follows:

	2010	2009
Research and development grants and contracts -		
Federal and pass-through grants	\$ 1,081,911	\$ 855,213
Other grants and contracts	784,862	994,704
Economic Development Administration grant	-	513,921
Other receivables	25,693	41,239
	<u>\$ 1,892,466</u>	<u>\$ 2,405,077</u>

Management considers all grants, contracts and accounts receivable at June 30, 2010 and 2009 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, 2010 and 2009 are due as follows:

	2010	2009
In one year or less	\$ 42,245	\$ 57,303
Between one and five years	30,615	82,789
Total pledges receivable	<u>72,860</u>	<u>140,092</u>
Less discounts to net present value	<u>9,953</u>	<u>16,373</u>
Net pledges receivable	<u>\$ 62,907</u>	<u>\$ 123,719</u>

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

Management considers all pledges receivable at June 30, 2010 and 2009 to be fully collectible; therefore, no allowance for uncollectible pledges has been established. In the event a pledge becomes uncollectible, the pledge will be charged off as a bad debt loss. For the year ended June 30, 2010, IHMC recorded a bad debt loss in temporarily restricted net assets totaling \$31,025.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

	2010	2009
Land	\$ 1,142,640	\$ 1,142,640
Buildings	5,627,114	3,923,945
Computers and software	657,141	612,026
Machinery and equipment	778,040	767,360
Furniture and fixtures	157,262	-
Vehicle	24,130	24,130
Art collection	3,750	3,750
Construction in progress - Ocala facility	-	909,775
Construction in progress - prototype	439,948	309,988
	<u>8,830,025</u>	<u>7,693,614</u>
Less accumulated depreciation and amortization	<u>1,202,624</u>	<u>847,098</u>
	<u>\$ 7,627,401</u>	<u>\$ 6,846,516</u>

Depreciation and amortization expense for property and equipment for the years ended June 30, 2010 and 2009 was \$371,637 and \$322,346, 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, 2010 AND 2009**

**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,

2011	\$ 105,311
2012	110,073
2013	115,049
2014	120,250
2015	<u>3,636,820</u>
Total	<u>\$ 4,087,503</u>

**NOTE 6 - NET ASSETS**

Temporarily restricted net assets at June 30, 2010 and 2009 consist of donor restricted contributions for use on the “Educational Outreach Youth Programs”, and unconditional promises to give with payments due in future periods to be used 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, 2010 AND 2009**

**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 \$543,009 in 2010 and \$585,531 in 2009.

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, 2010 and 2009, the University held \$486 and \$3,792, respectively, earmarked for UWF IHMC.



**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**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 \$110,026 and \$139,845 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, are as follows:

	2010	2009
General and administrative salaries	\$ 3,306	\$ 28,305

*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.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

*Concentration of credit risk - uninsured cash balances:*

IHMC maintains cash balances with three banks. In addition to the FDIC coverages provided by the three banks, 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, 2010, IHMC's cash balances were considered to be fully insured.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

*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:

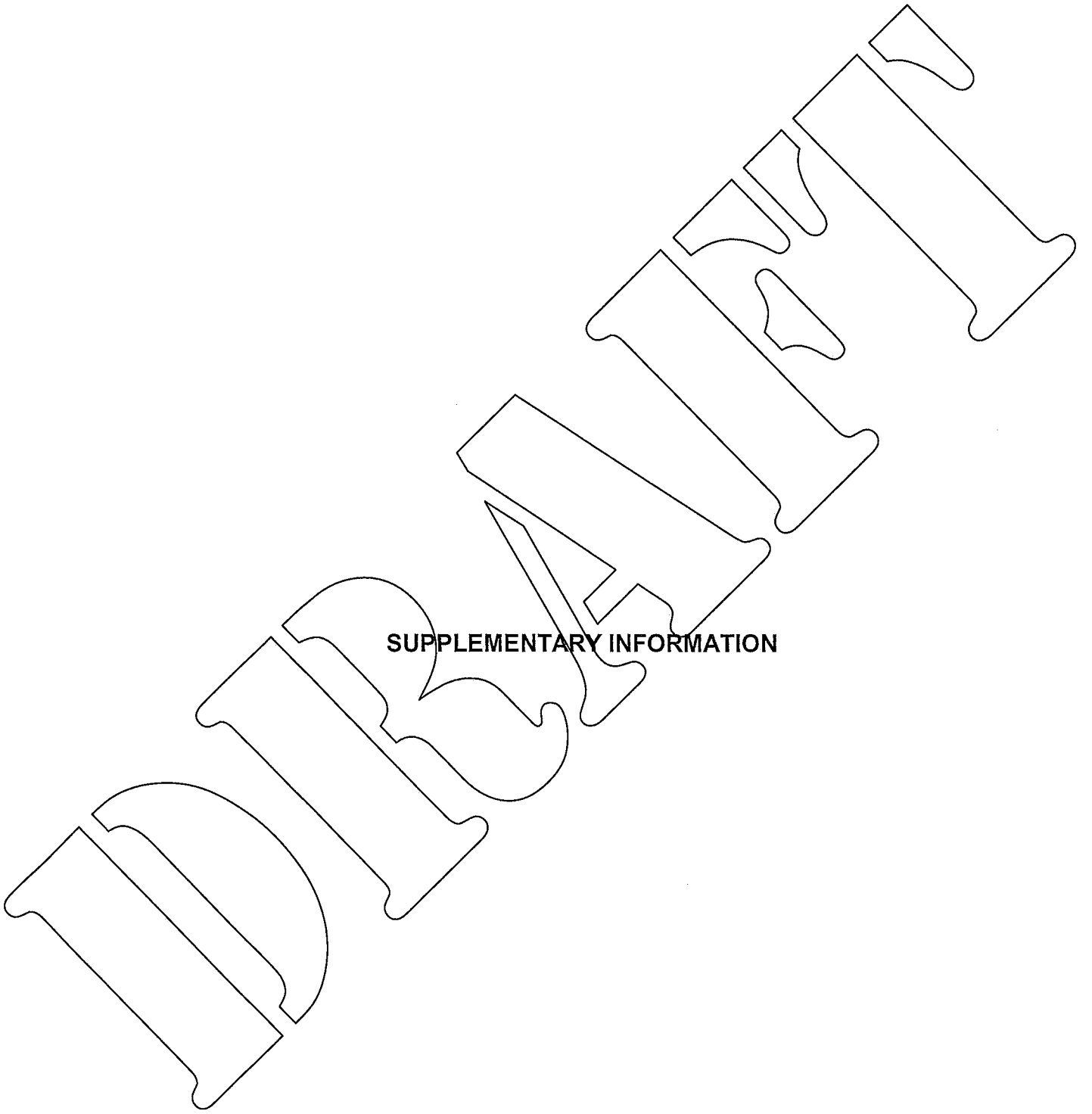
<u>Year ending June 30,</u>	
2011	\$ 95,107
2012	31,398
	<hr/>
	\$ 126,505

Rental expense for these leases for the years ended June 30, 2010 and 2009 was \$92,934 and \$89,628, 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, 2010, and therefore, is included in refundable advances in the accompanying statements of financial position.



**SUPPLEMENTARY INFORMATION**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Salaries, including in-kind services	\$ 1,748,861	\$ 2,135,348
Payroll taxes	106,396	130,207
Employee benefit programs	268,575	303,910
Administrative travel	121,211	141,578
Meals and entertainment	23,589	18,178
Insurance	82,164	85,802
Legal and professional	349,006	367,809
Occupancy, including in-kind	427,311	365,036
Interest expense	183,510	187,869
Bad debt expense	243,535	-
Repairs and maintenance	9,303	9,037
Office expenses	134,098	113,958
Telephone	95,072	101,986
Advertising expense	2,669	2,111
Lobbying costs	161,435	148,310
Licenses and fees	9,598	16,530
Memberships and continuing education	23,891	24,048
Community relations	3,526	2,890
Employee morale and welfare	10,728	12,239
Other	24,646	22,819
Depreciation and amortization	371,637	322,346
Indirect applied overhead, payroll taxes and employee benefits	(2,831,109)	(2,773,835)
<b>Total General and Administrative Expenses</b>	<b>\$ 1,569,652</b>	<b>\$ 1,738,176</b>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010**

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>			
Generic Dialogue Technology for Human-Robot Coordination	12.300	N00014-08-1-0979	\$ 98,750
Semantically Enabled Network Search	12.300	N00014-09-1-0431	147,948
An Agile Computing Approach to a Flexible and Adaptive Information Dissemination System	12.300	N00014-09-1-0612	293,852
Assistive Tech	12.300	N00014-09-1-0800	1,106,228
Deep Spatial Processing of Natural Language	12.630	HM1582-07-1-2038	142,101
Evidence Based Paraconsistency	12.630	HM1582-07-1-2039	51,995
<b><u>Passed through Bucknell University</u></b>			
UGV Mobility & Coordination in Joint Urban/Littoral Environments	12.300	N00014-09-1-0913-01	251,892
<b>Total Office of Naval Research</b>			<u>2,092,763</u>
<b><u>Defense Threat Reduction Agency</u></b>			
Brain Activity Modeling of Multisensory Interface Effectiveness	12.351	HDTRA1-09-1-0010	240,106
<b><u>U.S. Army Medical Command</u></b>			
Anthro-Centric Multisensory interfaces for Sensory Augmentation of Telesurgery	12.420	W81XWH-09-1-0617	165,875
Anthro-Centric Multisensory interfaces for Vision Augmentation/Substitution	12.420	W81XWH-10-1-0084	40,446
<b>Total U.S. Army Medical Command</b>			<u>206,321</u>
<b><u>Army Research Laboratory</u></b>			
Agile Computing for Army Future Combat Missions	12.431	W911NF-05-2-0051	121,311
<b><u>Passed through Florida Technological Institute</u></b>			
Biologically Inspired Security Infrastructure for Tactical Environments Year 2	12.630	W911NF-08-2-0023	394,407
<b>Total Army Research Laboratory</b>			<u>515,718</u>

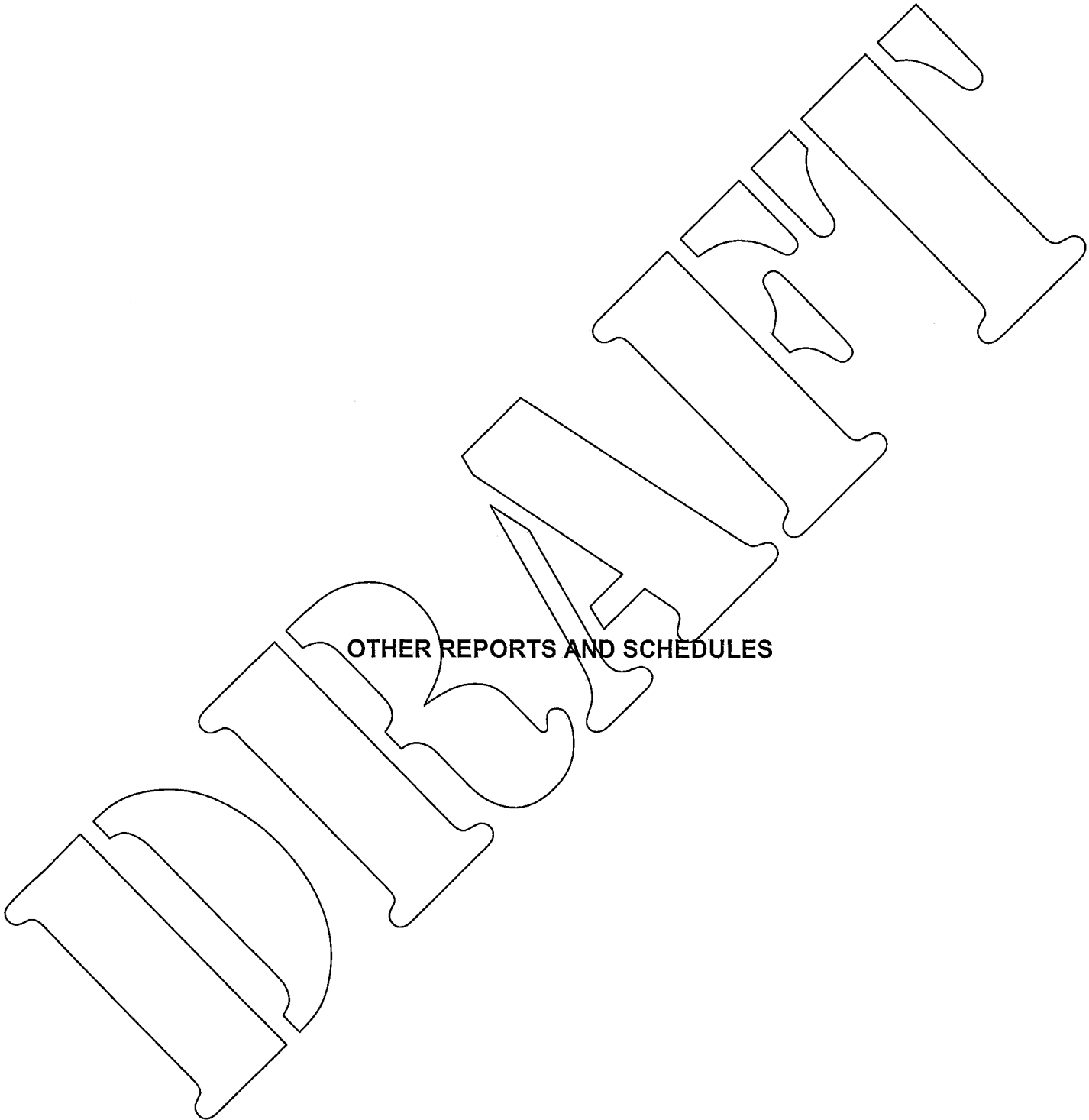
**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2010**  
**(Continued)**

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	83,602
Process Integrated Mechanism for Human-Computer Collaboration and Coordination	12.800	FA9550-08-1-0218	73,943
Process Integrated Mechanism for Human-Computer Collaboration and Coordination	12.800	FA9550-10-1-0302	21,169
Seamless and Secure Federation Among Highly-and-Loosely-Connected Infospaces	12.800	FA8750-07-2-0174	387,181
A Hybrid Emulation Environment for Airborne Networks	12.300	FA8750-10-2-0145	43,315
A Cross-Layer Communication Substrate for Tactical Information Management Systems	12.800	FA8750-07-2-0185	64,977
<b>Total Department of the Air Force</b>			<u>674,187</u>
<b><u>Defense Advanced Research Projects Agency</u></b>			
Integrated Learning from Observation, Language and Practice	12.910	HR0011-06-1-0035	166,070
DARPA JOUST	12.910	TCN 09143	59,996
<b>Total Defense Advanced Research Projects Agency</b>			<u>226,066</u>
<b><u>National Aeronautics and Space Administration,</u></b>			
<b>Ames Research Center</b>			
Lunar Exploration Advanced Concepts Study	43.001	NNX08AU09A	229,496
NASA Innovative Concepts for Exploration	43.002	NNX09AT06A	747,501
Robonaut Walking Algorithm Development	43.002	NNX10AG54A	459,062
<b>Total National Aeronautics and Space Administration</b>			<u>1,436,059</u>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2010**  
**(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>			
Deep Understanding Resources	47.070	CNS-0958193	14,955
<b><u>National Institutes of Health</u></b>			
<b>Passed through the H. Lee Moffitt Cancer Center</b>			
ARRA - Developing Information Infrastructure Focused on Cancer Comparative Effectiveness Research	93.701	1 RC2 CA148332-01	304,991
<b>Passed through the University of Pittsburgh</b>			
Novel Glaucoma Diagnostics for Structure and Function	93.867	NIH 2 R01 EY013178-06	18,521
<b>Total National Institute of Health</b>			323,512
<b>Total Research and Development Cluster</b>			5,729,687
<b><u>Department of Labor</u></b>			
<b>Passed through Florida's Great Northwest</b>			
Workforce in Regional Economic Development (WIRED)	17.261		144,442
<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	444,379
<b><u>Department of Education</u></b>			
<b>Passed through Florida Department of Education</b>			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397	17C-5920S-0CZ09	447,913
<b>Total Expenditures of Federal Awards</b>			\$ 6,766,421

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



**OTHER REPORTS AND SCHEDULES**



# Saltmarsh

Saltmarsh, Cleaveland & Gund

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## 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, 2010, and have issued our report thereon dated October 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 11, 2010

## 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 Florida Institute for Human and Machine Cognition, Inc.'s ("IHMC") (a nonprofit organization) compliance 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, 2010. 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 compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010.

### **Internal Control Over Compliance**

The management of IHMC is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered IHMC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IHMC's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. 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 11, 2010

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**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:

Basic and Applied Scientific Research	CFDA No. 12.300
Basic Science Research – Combating Weapons of Mass Destruction	CFDA No. 12.351
Military Medical Research and Development	CFDA No. 12.420
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
ARRA - Trans-NIH Recovery Act Research Support	CFDA No. 93.701

ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services      CFDA No. 84.397

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, 2010**  
**(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.

# Saltmarsh

Saltmarsh, Cleaveland & Gund

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## 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, 2010, and have issued our report thereon dated October 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 11, 2010