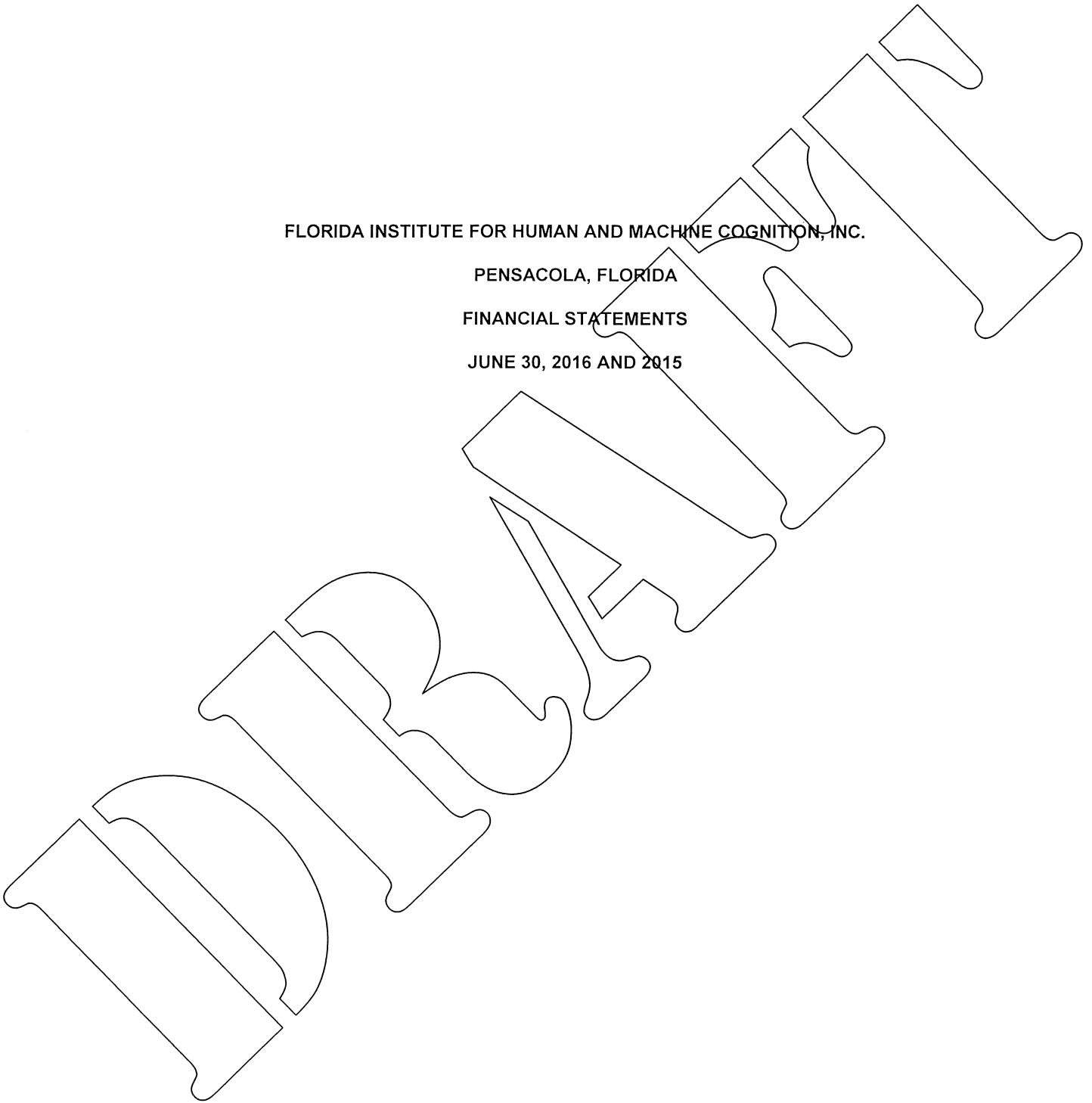


FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015



FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Institute for Human and Machine Cognition, Inc. ("IHMC") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHMC's internal control over financial reporting and compliance.

Pensacola, Florida
October 10, 2016

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
Cash	\$ 4,398,050	\$ 4,744,228
Restricted cash held by trustee	871,231	6,175,053
Grants and contracts receivables	1,915,858	1,926,177
Other receivables	7,495	1,012,224
Prepaid expenses	52,906	118,262
Property and equipment, net	15,588,162	9,732,997
Deposits	248,093	10,440
Total Assets	\$ 23,081,795	\$ 23,719,381

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 655,250	\$ 1,140,495
Retainage payable	131,475	151,410
Accrued payroll and related liabilities	433,377	309,333
Accrued interest	83,713	88,862
Refundable advances	17,008	8,674
Long-term debt	10,596,374	11,246,909
Total liabilities	11,917,197	12,945,683
Commitments and Contingencies	--	--
Net Assets:		
Unrestricted	11,026,425	10,451,444
Temporarily restricted	138,173	322,254
Total net assets	11,164,598	10,773,698
Total Liabilities and Net Assets	\$ 23,081,795	\$ 23,719,381

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, 2016 AND 2015

	2016	2015
Change in Unrestricted Net Assets:		
Support, Revenue and Reclassifications:		
Research and development grants and contracts -		
Federal and pass-through grants	\$ 5,436,155	\$ 7,577,728
Other grants and contracts	4,613,229	2,339,199
Legislative appropriation	4,289,184	3,926,739
Contributions	483,432	702,803
Other revenue	18,127	14,033
Net assets released from restrictions	267,201	134,578
Total support, revenue and reclassifications	15,107,328	14,695,080
Expenses:		
Program services -		
Research and development grants and contracts	11,665,443	11,697,531
Other program services	120,886	111,357
Total program services	11,786,329	11,808,888
Supporting services -		
Fundraising services -		
Salaries and employee benefits	12,210	7,707
Other fundraising expenses	39	53
Total fundraising services	12,249	7,760
General and administrative	2,733,769	3,543,310
Total supporting services	2,746,018	3,551,070
Total expenses	14,532,347	15,359,958
Support, revenue and reclassifications over (under) expenses	574,981	(664,878)
Other Items:		
Insurance proceeds	-	505,869
Robotics contest prize award	-	1,000,000
Total other items	-	1,505,869
Change in unrestricted net assets	574,981	840,991

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, 2016 AND 2015
(Continued)

	2016	2015
Change in Temporarily Restricted Net Assets:		
Contributions	83,120	434,220
Net assets released from restrictions	(267,201)	(134,578)
Change in temporarily restricted net assets	(184,081)	299,642
Change in Net Assets	390,900	1,140,633
Net Assets, Beginning of Year	10,773,698	9,633,065
Net Assets, End of Year	\$ 11,164,598	\$ 10,773,698

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, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 390,900	\$ 1,140,633
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	573,455	568,028
Donated investments	-	(301,691)
Loss on abandonment of property and equipment	2,507	-
Loss on sale of donated investments	-	1,125
Bad debt expense	25,000	6,068
Changes in operating assets and liabilities -		
Grants and contracts receivables	(14,681)	(287,052)
Other receivables	1,004,729	(527,409)
Prepaid expenses	65,356	4,085
Other assets	(237,653)	1,601
Accounts payable	(485,245)	683,124
Retainage payable	(19,935)	151,410
Accrued payroll and related liabilities	124,044	55,634
Accrued interest	(5,149)	(5,338)
Refundable advances	8,334	(47,039)
Net cash provided by operating activities	1,431,662	1,443,179
Cash Flows From Investing Activities:		
Proceeds from sale of donated investments	-	300,566
Purchases of property and equipment	(6,425,662)	(3,075,611)
Net cash used in investing activities	(6,425,662)	(2,775,045)
Cash Flows From Financing Activities:		
Proceeds from note issuance	5,316,173	2,490,568
Principal payments of long-term debt	(656,000)	(680,000)
(Increase) decrease in restricted cash for debt service	(12,351)	2,671
Net cash provided by financing activities	4,647,822	1,813,239
Net Increase (Decrease) in Cash	(346,178)	481,373
Cash at Beginning of Year	4,744,228	4,262,855
Cash at End of Year	\$ 4,398,050	\$ 4,744,228
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 348,897	\$ 633,338

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, 2016 AND 2015

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, 2016 and 2015.

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, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legislative Appropriation:

Support from legislative appropriation represents amounts received from the Florida state budget, general revenue fund. During the year ended June 30, 2015, IHMC received an additional \$437,555 from the general fund through the University of Central Florida, an affiliated organization.

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. Management considers all grants and contracts receivables at June 30, 2016 and 2015 to be fully collectible; therefore, no allowance for uncollectible accounts has been established.

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, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash:

Restricted cash represents funds held by the note trustee for construction of a new research facility and debt service.

Debt Issuance Costs:

Debt issuance costs are amortized over the term of the debt using the straight-line method since the difference between this method and the effective interest method is not material to the financial statements. Amortization of debt issuance costs is reported as interest expense in the schedules of general and administrative expenses and totaled \$5,465 for each of the years ended June 30, 2016 and 2015.

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
Robotics	3-5 years
Furniture and fixtures	5 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. Costs of equipment that are acquired or constructed for research and development activities are generally expensed; however, equipment acquired or constructed which have alternative future uses in research and development projects or otherwise are also capitalized.

Refundable Advances:

Refundable advances represent 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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Reclassifications:

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Subsequent Events:

Management has evaluated subsequent events through October 10, 2016, the date which the financial statements were available for issue.

Recent Accounting Standards:

During the year ended June 30, 2016, IHMC elected to early adopt and retrospectively apply FASB Accounting Standards Update No. 2015-03 ("ASU 2015-03"), *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be presented as a direct deduction from the carrying amount of the debt rather than as an asset, consistent with debt discounts. The June 30, 2015 balance sheet previously reported long-term debt of \$11,320,000 in liabilities, with the associated \$73,091 unamortized debt issuance costs included in other assets. There was no impact on the results of operations as a result of the early adoption of ASU 2015-03.

NOTE 2 - RESTRICTED CASH HELD BY TRUSTEE

Restricted cash is comprised of the following:

	2016	2015
Undisbursed debt proceeds - construction	\$ 223,351	\$ 5,539,524
Debt service -		
Note principal	564,167	546,667
Note interest	83,713	88,862
	\$ 871,231	\$ 6,175,053

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - OTHER RECEIVABLES

At June 30, 2016 and 2015, other receivables were as follows:

	<u>2016</u>	<u>2015</u>
Robotics contest prize award receivable	\$ -	\$ 1,000,000
Other receivables	7,495	12,224
	<u>\$ 7,495</u>	<u>\$ 1,012,224</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,302,872	\$ 1,142,640
Buildings	6,132,442	5,717,750
Computers and software	1,310,261	1,050,807
Machinery and equipment	1,036,917	1,017,024
Robotics	810,638	810,638
Furniture and fixtures	264,293	264,293
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	9,204,900	3,645,445
	<u>20,136,898</u>	<u>13,723,172</u>
Less accumulated depreciation and amortization	4,548,736	3,990,175
	<u>\$ 15,588,162</u>	<u>\$ 9,732,997</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 was \$567,990 and \$562,563, respectively.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

Construction in progress at June 30, 2016 and 2015 represents construction costs for the new research facility.

IHMC capitalizes interest costs on borrowings incurred during the construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. IHMC capitalized approximately \$338,000 and \$363,000, respectively, of interest in connection with the construction of the new research facility for the years ended June 30, 2016 and 2015.

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, Florida 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.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

\$12,000,000 Industrial Development Revenue Note, Series 2013, due in monthly installments of \$84,274 to \$101,179, from December 1, 2013 through September 1, 2028 with an interest rate of 3.14%, secured by mortgage and security agreement

Less unamortized debt issuance costs

Long-term debt, net of unamortized debt issuance costs

	2016	2015
\$ 10,664,000	\$ 10,664,000	\$ 11,320,000
67,626	67,626	73,091
\$ 10,596,374	\$ 10,596,374	\$ 11,246,909

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 - LONG-TERM DEBT (Continued)

Maturities of the revenue note are as follows:

Year ending June 30,

2017	\$ 677,000
2018	698,000
2019	720,000
2020	743,000
2021	766,000
Thereafter	7,060,000
	\$ 10,664,000

In November 2013, Escambia County, Florida (“the County”), issued \$12,000,000 industrial development revenue note to provide financial assistance to IHMC for the refunding of the Commission’s 2008 \$4,292,500 industrial revenue bonds, and for the financing of the construction of a new research facility. The note is payable solely from the payments received from the underlying financing agreement with a term of 15 years, bearing interest at a rate of 3.14%, and secured by a mortgage on IHMC’s land and building. Pursuant to the financing and construction agreements, IHMC agreed to make monthly installments to the County sufficient to pay all principal and interest amounts. IHMC executed and delivered a promissory note to the County, who is assigned all rights to receive payments from IHMC related to these agreements. The County has no obligation in any manner for repayment of the note. During 2014 the County disbursed \$3,969,908 to IHMC to refund the Commission’s bonds payable, pay for new debt issuance costs, and pay for architect costs related to the construction of the new research facility. During 2016 and 2015 the County disbursed \$5,316,173 and \$2,490,568, respectively, to IHMC to pay for construction costs of the new research facility. The remaining \$223,351 will be disbursed by the County as IHMC incurs construction costs for the new research building.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 - NET ASSETS

Temporarily restricted net assets include contributions restricted by donors for specific purposes that have not yet been accomplished and unconditional promises to give with payments due in future periods to be used for the activities of IHMC. Temporarily restricted net assets at June 30, 2016 and 2015 are presented as follows:

	2016	2015
Educational Outreach Youth Programs	\$ 25,260	\$ -
Research projects	106,022	300,000
Other	6,891	22,254
	\$ 138,173	\$ 322,254

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 \$844,379 in 2016 and \$858,551 in 2015.

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.

IHMC has 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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 - RELATED PARTY TRANSACTIONS

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. One member of IHMC's Board of Directors serves on the Board of Trustees for the University. 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 two banks. In addition to the FDIC coverage provided by the two banks, the demand deposit accounts held at one bank are also protected under the Chapter 280, Florida Statutes, Public Deposits Trust Fund. At June 30, 2016, IHMC had cash balances in excess of insured limits of approximately \$1,722,000.

Line of Credit:

IHMC has a revolving, unsecured, \$2,000,000 line of credit with a financial institution. The line of credit carries interest of 2.5% over the one month LIBOR rate and expires on February 27, 2017. IHMC had no amounts outstanding as of June 30, 2016 and 2015 under the line of credit.

Lease Commitments:

During fiscal year 2016, IHMC leased three office spaces. The leased property located at 127 South Alcaniz Street, Pensacola, Florida, was dedicated to IHMC's administrative function. This lease was cancelled effective October 30, 2015. The leased property located at 100 South Alcaniz was dedicated to the robot prototype research. This lease was cancelled effective December 31, 2015. The leased property located at 201 East Wright Street is used as a robot lab. This lease expired in December 2015 but IHMC continues to occupy the property on a month-to-month lease.

Rental expense for operating leases for the years ended June 30, 2016 and 2015 was \$141,066 and \$197,218, respectively.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies:

The Defense Contract Audit Agency (“DCAA”) is the federal agency tasked with auditing grant compliance on behalf of the Office of Naval Research (“ONR”), which is IHMC’s cognizant agency. As noted in their audit reports for fiscal years ended June 30, 2008 through 2013, DCAA has questioned a portion of indirect costs included in the indirect cost pool. As of October 10, 2016, ONR has not requested a reimbursement nor a change in methodology based on DCAA’s finding and recommendation. However, as a result of the unresolved DCAA audit finding, the overhead rate for the above mentioned fiscal years remains in provisional status and has not been approved by ONR. Should ONR follow DCAA’s recommendation, IHMC could be required to refund any disallowed indirect costs. Although that is a possibility, IHMC’s management and Board of Directors deems the contingency remote, since ONR has continued to provide grant funding using the same provisional rate calculation.

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.

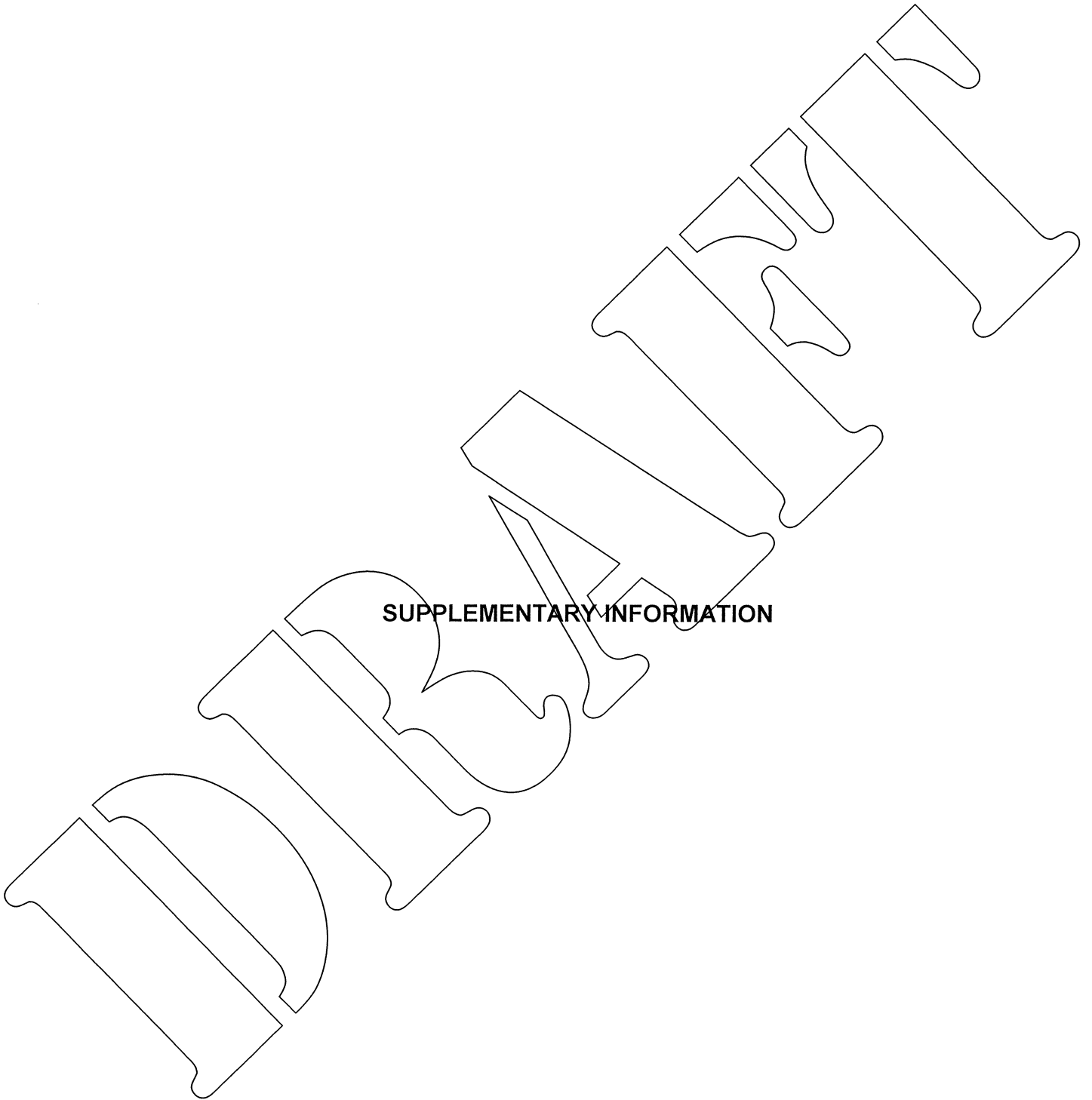
In July 2008, IHMC received an Economic Incentive Grant for \$550,000 from the Marion County, Florida, Board of County Commissioners. The grant funding is to be used at IHMC’s discretion for recruitment, advertising, operations and administration associated with the startup of the research facility in Ocala, Florida. The grant requires IHMC to comply with various conditions for the employment and compensation of employees at the facility through April 2017. Failure to comply with these conditions could result in the return of all or part of the grant funding to Marion County.

NOTE 10 - INSURANCE PROCEEDS

In April 2014, IHMC sustained significant flood damage to its facilities due from unprecedented amounts of rainfall. During the year ended June 30, 2015, IHMC received insurance proceeds of \$505,869 reported as an other item in the statement of activities and incurred flood recovery expenses of \$651,855 reported in general and administrative expenses.

NOTE 11 - ROBOTICS CONTEST PRIZE AWARD

During 2015, IHMC competed in the Defense Advanced Research Projects Agency Robotics Challenge and finished in second place. IHMC received \$1,000,000 in prize money which is reported as an other item in the statement of activities.



SUPPLEMENTARY INFORMATION

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Salaries	\$ 2,720,609	\$ 2,775,675
Payroll taxes	167,594	168,964
Employee benefit programs	436,720	436,523
Administrative travel	118,052	152,873
Meals and entertainment	26,939	47,978
Insurance	178,088	184,914
Legal and professional	430,176	398,283
Occupancy, including in-kind	481,535	597,322
Interest expense	5,465	5,465
Repairs and maintenance	6,416	10,976
Office expenses	171,638	276,661
Telephone	60,927	64,631
Lobbying costs	145,115	139,610
Licenses and fees	31,123	26,022
Memberships and continuing education	36,786	33,473
Employee morale and welfare	24,948	18,300
Other	48,877	48,440
Flood recovery expenses	-	651,855
Depreciation	567,990	562,563
Indirect applied overhead, payroll taxes and employee benefits	(2,925,229)	(3,057,218)
Total General and Administrative Expenses	\$ 2,733,769	\$ 3,543,310

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<u>Research and Development Cluster:</u>			
<u>Office of Naval Research</u>			
VIEWGEN-2: An Integrated Model of Memory, Belief and Mental State Ascription	12.300	N00014-13-1-0225	\$ 84,368
Accomplishments of Naturalistic Decision Making Research and Applications to Emerging Defense Challenges	12.300	N00014-14-1-0086	9,103
Accomplishments of Naturalistic Decision Making Research and Applications to Emerging Defense Challenges	12.300	N00014-15-1-2336	<u>5,927</u>
Total Office of Naval Research			<u>99,398</u>
<u>Army Medical Research Acquisition Activity</u>			
<u>Passed through Engineering Acoustics, Inc.</u>			
Multi Sensor Integration for Balance Control Phase II	12.420	W81XWH-13-C-0129	<u>27,148</u>
<u>Department of the Army</u>			
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	<u>961,423</u>
<u>Army Research Laboratory</u>			
Extending Agile Computing to Support Battlefield Information Management, Command & Control Data to Decision and Network Science	12.431	W911NF-11-2-0095	391,097
Deep Reading to Understand Mechanisms	12.431	W911NF-14-1-0391	817,089
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	<u>190,549</u>
Total Army Research Laboratory			<u>1,398,735</u>

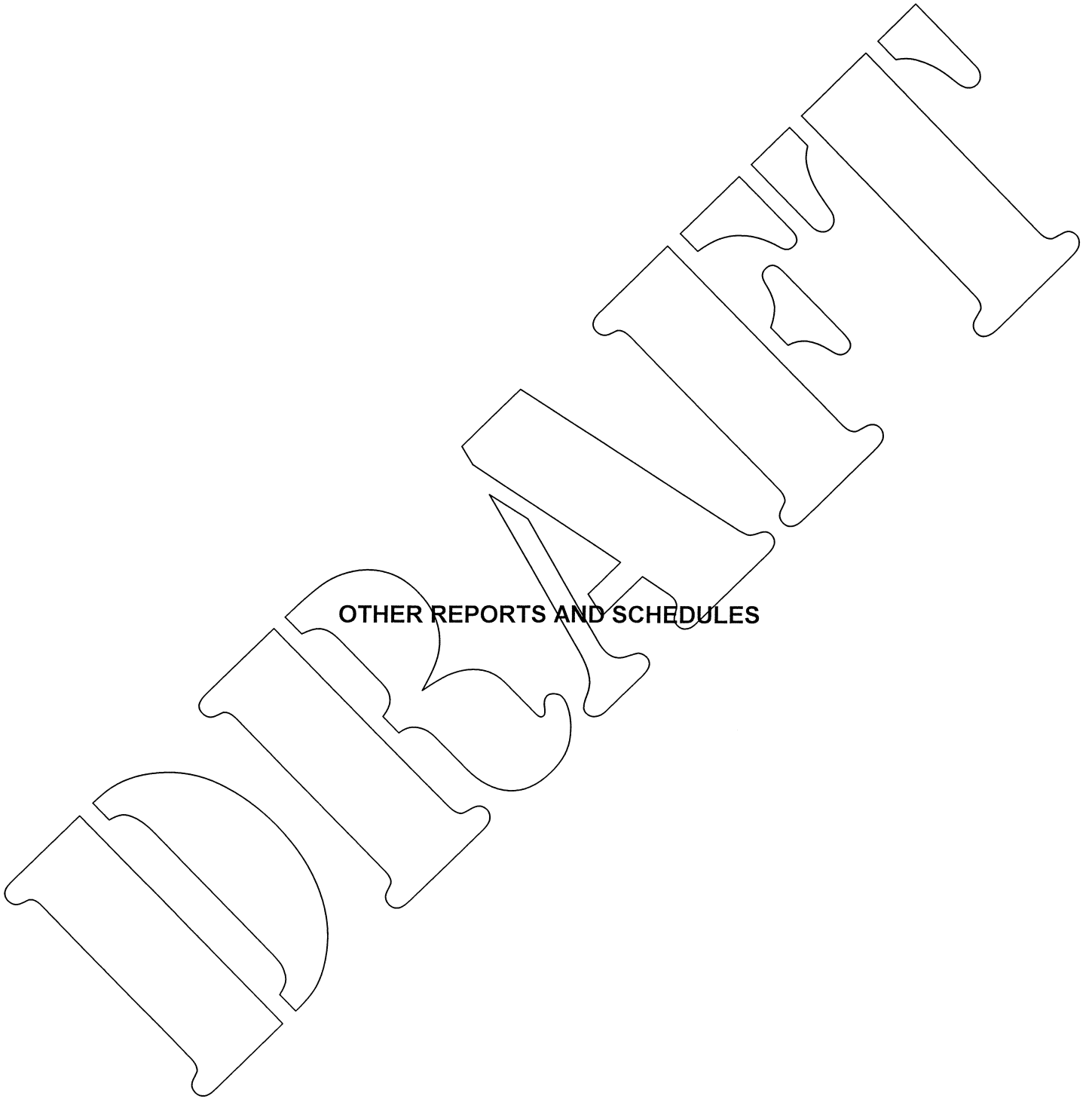
FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016
(Continued)

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<u>Department of the Air Force.</u>			
<u>Air Force Research Laboratory</u>			
CUBISM: Conversation Understanding through Belief Interpretation Sociolinguistic Modeling	12.300	FA8750-12-2-0348	723,242
Using Human-Machine Teamwork to Perform Disaster Response with a Humanoid Robot	12.300	FA8750-12-1-0316	13,091
			<u>736,333</u>
Accomplishments of Naturalistic Decision Making Research and Applications to Emerging Defense Challenges	12.800	FA9550-15-1-0169	2,560
Passed through Florida Institute of Technology, Inc.			
A Systems Behavior Approach to Integrated Moving Target C2 with Resilience Response	12.800	FA8750-13-2-0064	37,228
Passed through Raytheon BBN Technologies Corp.			
Force Protection	12.800	FA8750-12-C-0026	41,199
			<u>80,987</u>
Total Department of the Air Force			<u>817,320</u>
<u>National Aeronautics and Space Administration.</u>			
<u>NASA Shared Services Center</u>			
NASA Advanced Concepts for Human Space Exploration	43.003	NNX11AR31A	324,793
NRI LG: Toward Humanoid Avatar Robots for Co-Exploration of Hazardous Environments	43.009	NNX12AP97G	814,938
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	825,587
NASA-Northrup Grumman Autonomous Tugs	43.009	NNX15AP75G	30,101
			<u>1,670,626</u>
Total National Aeronautics and Space Administration			<u>1,995,419</u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016
(Continued)

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Federal Expenditures
<u>National Science Foundation</u>			
NRI: Collaborative: Optimal Interaction Design Framework for Powered Lower-Extremity Exoskeletons	47.070	IIS-1427213	105,262
<u>National Oceanic and Atmospheric Administration (NOAA)</u>			
<u>Cooperative Institutes</u>			
Passed through Florida Atlantic University			
The Cooperative Institute for Ocean Exploration, Research and Technology (CIOERT) Years 6-10	11.432	NA14OAR4320260	31,450
Total Expenditures of Federal Awards			\$ 5,436,155

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, 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, the financial statements of Florida Institute for Human and Machine Cognition, Inc. ("IHMC"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of IHMC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Pensacola, Florida
October 10, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Florida Institute for Human and Machine Cognition, Inc.'s ("IHMC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, that could have a direct and material effect on each of IHMC's major federal programs for the year ended June 30, 2016. IHMC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of IHMC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, OMB Circular A-133 and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of IHMC's compliance.

Opinion on Each Major Federal Program

In our opinion, IHMC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of IHMC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered IHMC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of Florida Institute for Human and Machine Cognition, Inc.
2. No significant deficiencies in internal control relating to the audit of the financial statements are 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 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 relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 and the Uniform Guidance.
5. The auditor's report on compliance for major federal award programs for Florida Institute for Human and Machine Cognition, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major federal programs for Florida Institute for Human and Machine Cognition, Inc. which are required to be reported in accordance with Section 510(a) of OMB Circular A-133 and 2 CFR section 200.516(a) of the Uniform Guidance.
7. The programs tested as major programs included the following:

Research and Development Cluster:

National Oceanic and Atmospheric Administration (NOAA)	
Cooperative Institutes	CFDA No. 11.432
Basic and Applied Scientific Research	CFDA No. 12.300
Military Medical Research and Development	CFDA No. 12.420
Basic Scientific Research	CFDA No. 12.431
Air Force Defense Research Sciences Program	CFDA No. 12.800
Research and Technology Development	CFDA No. 12.910
Exploration	CFDA No. 43.003
Cross Agency Support	CFDA No. 43.009
Computer and Information Science and Engineering	CFDA No. 47.070

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016
(Continued)

A. SUMMARY OF AUDITOR'S RESULTS (Continued)

8. The threshold used for distinguishing between Type A and B programs was \$750,000 for major federal programs.
9. Florida Institute for Human and Machine Cognition, Inc. was determined to be a low-risk auditee pursuant to OMB Circular A-133 and the Uniform Guidance.

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 and the Uniform Guidance.