

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, 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.

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

## **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, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of expenditures of state financial assistance, as required by Chapter 10.650, Rules of the Auditor General, are presented for purposes of additional analysis and are 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 19, 2017, 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 19, 2017

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

**ASSETS**

	2017	2016
Cash	\$ 3,034,112	\$ 4,398,050
Restricted cash held by trustee	883,416	871,231
Grants and contracts receivables	3,266,078	1,915,858
Pledge receivable	97,794	-
Other receivables	-	7,495
Prepaid expenses	91,186	52,906
Property and equipment, net	16,902,170	15,588,162
Deposits	19,196	248,093
<b>Total Assets</b>	<b>\$ 24,293,952</b>	<b>\$ 23,081,795</b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 390,740	\$ 655,250
Retainage payable	-	131,475
Accrued payroll and related liabilities	461,637	433,377
Accrued interest	78,398	83,713
Refundable advances	42,283	17,008
Long-term debt	9,924,838	10,596,374
Total liabilities	10,897,896	11,917,197

**Commitments and Contingencies**

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**Net Assets:**

Unrestricted	13,150,609	11,026,425
Temporarily restricted	245,447	138,173
Total net assets	13,396,056	11,164,598

**Total Liabilities and Net Assets**

**\$ 24,293,952**      **\$ 23,081,795**

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, 2017 AND 2016**

	2017	2016
<b>Change in Unrestricted Net Assets:</b>		
<b>Support, Revenue and Reclassifications:</b>		
Research and development grants and contracts -		
Federal, state and pass-through grants	\$ 6,586,932	\$ 5,436,155
Other grants and contracts	6,235,658	4,613,229
Legislative appropriation	4,739,184	4,289,184
Contributions	1,038,158	483,432
Other revenue	50,246	18,127
Net assets released from restrictions	185,824	267,201
	<b>18,836,002</b>	<b>15,107,328</b>
 <b>Expenses:</b>		
Program services -		
Research and development grants and contracts	13,241,227	11,665,443
Other program services	133,438	120,886
Total program services	<b>13,374,665</b>	<b>11,786,329</b>
Supporting services -		
Fundraising services -		
Salaries and employee benefits	57,043	12,210
Other fundraising expenses	2,113	39
	<b>59,156</b>	<b>12,249</b>
General and administrative	3,277,997	2,733,769
Total supporting services	<b>3,337,153</b>	<b>2,746,018</b>
	<b>16,711,818</b>	<b>14,532,347</b>
 Change in unrestricted net assets	<b>2,124,184</b>	<b>574,981</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, 2017 AND 2016**  
**(Continued)**

	<u>2017</u>	<u>2016</u>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	293,098	83,120
Net assets released from restrictions	<u>(185,824)</u>	<u>(267,201)</u>
Change in temporarily restricted net assets	<u>107,274</u>	<u>(184,081)</u>
<b>Change in Net Assets</b>	2,231,458	390,900
<b>Net Assets, Beginning of Year</b>	<u>11,164,598</u>	<u>10,773,698</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 13,396,056</u></u>	<u><u>\$ 11,164,598</u></u>

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

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 2,231,458	\$ 390,900
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	743,931	573,455
Loss on sale of donated investments	-	2,507
Bad debt expense	106,007	25,000
Changes in operating assets and liabilities -		
Grants and contracts receivables	(1,456,227)	(14,681)
Pledge receivable	(97,794)	-
Other receivables	7,495	1,004,729
Prepaid expenses	(38,280)	65,356
Other assets	(88,969)	(237,653)
Accounts payable	(264,510)	(485,245)
Retainage payable	(131,475)	(19,935)
Accrued payroll and related liabilities	28,260	124,044
Accrued interest	(5,315)	(5,149)
Refundable advances	25,275	8,334
Net cash provided by operating activities	<u>1,059,856</u>	<u>1,431,662</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	<u>(1,734,609)</u>	<u>(6,425,662)</u>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from note issuance	-	5,316,173
Principal payments of long-term debt	(677,000)	(656,000)
Increase in restricted cash for debt service	(12,185)	(12,351)
Net cash provided by (used in) financing activities	<u>(689,185)</u>	<u>4,647,822</u>
<b>Net Decrease in Cash</b>	(1,363,938)	(346,178)
<b>Cash at Beginning of Year</b>	<u>4,398,050</u>	<u>4,744,228</u>
<b>Cash at End of Year</b>	<u>\$ 3,034,112</u>	<u>\$ 4,398,050</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<u>\$ 322,450</u>	<u>\$ 348,897</u>

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



## **NOTES TO FINANCIAL STATEMENTS**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**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, 2017 and 2016.

*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, 2017 AND 2016**

**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.

*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, 2017 and 2016 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, 2017 AND 2016**

**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 \$5,464 for each of the years ended June 30, 2017 and 2016.

*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, 2017 AND 2016**

**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.

*Subsequent Events:*

Management has evaluated subsequent events through October 19, 2017, the date which the financial statements were available for issue.

**NOTE 2 - RESTRICTED CASH HELD BY TRUSTEE**

Restricted cash is comprised of the following:

	2017	2016
Undisbursed debt proceeds - construction	\$ 223,351	\$ 223,351
Debt service -		
Note principal	581,667	564,167
Note interest	78,398	83,713
	\$ 883,416	\$ 871,231

**NOTE 3 - PLEDGE RECEIVABLE**

Pledge receivable at June 30, 2017 and 2016 consists of the following:

	2017	2016
In one year or less	\$ 50,000	\$ -
Between one and five years	50,000	-
Total pledges receivable	100,000	-
Less discounts to net present value	2,206	-
	\$ 97,794	\$ -

The discount rates used to calculate net present value is 1.5%.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,302,872	\$ 1,302,872
Buildings	15,524,976	6,132,442
Computers and software	1,482,656	1,310,261
Machinery and equipment	1,405,746	1,036,917
Robotics	823,054	810,638
Furniture and fixtures	737,600	264,293
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	837,891	9,204,900
	<u>22,189,370</u>	<u>20,136,898</u>
Less accumulated depreciation and amortization	<u>5,287,200</u>	<u>4,548,736</u>
	<u>\$ 16,902,170</u>	<u>\$ 15,588,162</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$738,467 and \$567,990, respectively.

Construction in progress at June 30, 2017 represent costs for a drainage project. Construction in progress at June 30, 2016 represents construction costs for the new research facility. The construction of the new research facility was completed during 2016.

IHMC capitalized 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 \$108,000 and \$338,000, respectively, of interest in connection with the construction of the new research facility for the years ended June 30, 2017 and 2016.

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.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 - PROPERTY AND EQUIPMENT (Continued)**

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:

	2017	2016
\$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	\$ 9,987,000	\$ 10,664,000
Less unamortized debt issuance costs	62,162	67,626
Long-term debt, net of unamortized debt issuance costs	\$ 9,924,838	\$ 10,596,374

Maturities of the revenue note are as follows:

Year ending June 30,	
2018	\$ 698,000
2019	720,000
2020	743,000
2021	766,000
2022	790,000
Thereafter	6,270,000
	\$ 9,987,000

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 5 - LONG-TERM DEBT (Continued)**

In November 2013, Escambia County, Florida (“the County”), issued a \$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. 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 and 2015, the County disbursed \$6,460,476 to IHMC to refund the Commission’s bonds payable, pay for new debt issuance costs, pay for architect costs and construction costs of the new research facility. During 2016, the County disbursed \$5,316,173 to IHMC to pay for construction costs of the new research facility. The remaining \$223,351 will be disbursed by the County as IHMC receives the certificate of occupancy for the new research building.

**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, 2017 and 2016 are presented as follows:

	2017	2016
Educational Outreach Youth Programs	\$ 39,099	\$ 25,260
Research projects	100,000	106,022
Future periods	97,794	-
Other	8,554	6,891
	\$ 245,447	\$ 138,173

**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.



**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 7 - RETIREMENT PLANS (Continued)**

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 \$919,178 in 2017 and \$844,282 in 2016.

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.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

Prior to the creation of IHMC as a separate nonprofit entity, the University of West Florida 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 of West Florida ("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, 2017, IHMC had cash balances in excess of insured limits of approximately \$524,000.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

*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 26, 2018. IHMC had no amounts outstanding as of June 30, 2017 and 2016 under the line of credit.

*Lease Commitments:*

During fiscal year 2017, IHMC leased property located at 201 East Wright Street which was used as a robot lab. This lease expired in December 2015 but IHMC continued to occupy the property on a month-to-month lease through October 2016. During fiscal year 2016, IHMC also leased property located at 127 South Alcaniz Street, Pensacola, Florida, which 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.

Rental expense for operating leases for the years ended June 30, 2017 and 2016 was \$18,842 and \$141,066, respectively.

*Contingencies:*

The Defense Contract 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 the fiscal years ended June 30, 2008 through 2013, DCAA had questioned a portion of indirect costs included in the indirect cost pool. In March 2017, ONR issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2011. The finalized rates were lower than those rates applied by IHMC during that time under audit. In the spring of 2017, ONR issued final rates for both fiscal years ended June 30, 2012 and 2013. There was a slight adjustment to the 2012 rate and no adjustment to the 2013 rate. The overall effects of the lower rates cannot accurately be determined and as such, no provision for any possible payback has been recorded in the financial statements.

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.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

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 required 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 would have resulted in the return of all or part of the grant funding to Marion County.

**NOTE 10 - SUBSEQUENT EVENT**

In July 2017, IHMC purchased land for \$2,000,000. IHMC entered into a note with monthly installments of \$10,557 from August 2017 through June 2027, with a final balloon payment due in July 2017, and interest at a rate of 4%. The note is secured by a mortgage on the land.

**SUPPLEMENTARY INFORMATION**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Salaries	\$ 2,979,806	\$ 2,717,620
Payroll taxes	180,470	167,594
Employee benefit programs	493,667	439,709
Administrative travel	100,641	118,052
Meals and entertainment	24,124	26,939
Insurance	203,544	178,088
Legal and professional	451,992	430,176
Occupancy, including in-kind	430,211	481,535
Interest expense	214,526	5,465
Repairs and maintenance	8,725	6,416
Office expenses	299,376	171,638
Bad debt	106,007	25,000
Telephone	61,769	60,927
Lobbying costs	150,574	145,115
Licenses and fees	17,245	31,123
Memberships and continuing education	42,790	36,786
Employee morale and welfare	21,761	24,948
Other	46,415	23,877
Depreciation	738,467	567,990
Indirect applied overhead, payroll taxes and employee benefits	(3,294,113)	(2,925,229)
<b>Total General and Administrative Expenses</b>	<b>\$ 3,277,997</b>	<b>\$ 2,733,769</b>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<b><u>Research and Development Cluster:</u></b>				
<b><u>Office of Naval Research</u></b>				
Synthetic Biology Approach to Enhancing Warfighter Tolerance to Hypothermic Stress	12.300	N00014-16-1-2942	\$ 126,999	\$ -
Concept Map-Based Knowledge Modeling of Undersea Medicine	12.300	N00014-16-P-3025	37,099	-
<b>Total Office of Naval Research</b>			<u>164,098</u>	<u>-</u>
<b><u>Department of the Army</u></b>				
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	1,437,270	561,791
<b><u>Army Research Laboratory</u></b>				
Extending Agile Computing to Support Battlefield Information Management, Command & Control Data to Decision and Network Science	12.431	W911NF-11-2-0095	539	-
Deep Reading to Understand Mechanisms	12.431	W911NF-14-1-0391	830,603	66,533
WorldModele	12.431	W911NF-167-1-0047	271,076	41,689
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	479,724	75,000
<b>Total Army Research Laboratory</b>			<u>1,581,942</u>	<u>183,222</u>
<b><u>Department of the Air Force</u></b>				
<b><u>Air Force Research Laboratory</u></b>				
CUBISM: Conversation Understanding through Belief Interpretation Sociolinguistic Modeling	12.300	FA8750-12-2-0348	393,188	176,771
Wearable Sensor Suite and Cognitive Gauges for a Quantified Warrior	12.800	FA8650-16-1-6771	510,617	173,192
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	67,120	25,723
<b>Total Department of the Air Force</b>			<u>970,925</u>	<u>375,686</u>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**  
**(Continued)**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<b><u>National Aeronautics and Space Administration.</u></b>				
<b><u>NASA Shared Services Center</u></b>				
NASA Advanced Concepts for Human Space Exploration	43.003	NNX11AR31A	128,832	-
Grasshopper Exercise Prototype	43.003	NNX17AJ56A	71,780	-
			<u>200,612</u>	<u>-</u>
NRI LG: Toward Humanoid Avatar Robots for Co-Exploration of Hazardous Environments	43.009	NNX12AP97G	1,132,095	-
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	139,284	-
			<u>1,271,379</u>	<u>-</u>
<b>Total National Aeronautics and Space Administration</b>			<u>1,471,991</u>	<u>-</u>
<b><u>National Science Foundation</u></b>				
NRI: Collaborative: Optimal Interaction Design Framework for Powered Lower-Extremity Exoskeletons	47.070	IIS-1427213	42,855	-
<b><u>National Oceanic and Atmospheric Administration (NOAA)</u></b>				
<b><u>Cooperative Institutes</u></b>				
<b>Passed through Florida Atlantic University</b>				
The Cooperative Institute for Ocean Exploration, Research and Technology (CIOERT) Years 6-10	11.432	NA14OAR4320260	144,181	-
<b><u>U.S Department of Commerce</u></b>				
Cross-Field Methodologies for Research in Data Science	11.609	70NANB17H210	23,670	-
<b>Total Expenditures of Federal Awards</b>			<u>\$ 5,836,932</u>	<u>\$ 1,120,699</u>

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

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2017**

State Grantor, Pass-through Grantor, Program or Cluster Title	CSFA Number	Pass-through Agency's Identifying Number	Expenditures
<b><u>Florida Department of Environmental Protection</u></b>			
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP17024	<u>\$ 750,000</u>

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



**OTHER REPORTS AND SCHEDULES**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, 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, 2017, 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 19, 2017.

**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.

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

### **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 19, 2017

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND STATE PROJECT AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

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

**Report on Compliance for Each Major Federal Program and State Project**

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* and the requirements described in the *Executive Office of the Governor’s State Project Compliance Supplement* that could have a direct and material effect on each of IHMC’s major federal programs and state project for the year ended June 30, 2017. IHMC’s major federal programs and state project 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 and state project.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of IHMC’s major federal programs and state project 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”); and Chapter 10.650, Rules of the Auditor General. Those standards, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General 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 or state project 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 and state project. However, our audit does not provide a legal determination of IHMC’s compliance.

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

### **Opinion on Each Major Federal Program and State Project**

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 and state project for the year ended June 30, 2017.

### **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 and state project 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 state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, 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 or state project 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 the Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida  
October 19, 2017

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**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 and state project are reported in the Independent Auditor's Report on Compliance For Each Major Program and State Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for major federal award programs and state project 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 and state project for Florida Institute for Human and Machine Cognition, Inc. which are required to be reported in accordance with Section 2 CFR section 200.516(a) of the Uniform Guidance and Chapter 10.650, Rules of the Auditor General.
7. The programs tested as major programs/project included the following:

**Federal Program**

Research and Development Cluster:

National Oceanic and Atmospheric Administration (NOAA)	
Cooperative Institutes	CFDA No. 11.432
Measurement and Engineering Research and Standards	CFDA No. 11.609
Basic and Applied Scientific Research	CFDA No. 12.300
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, 2017**  
**(Continued)**

**A. SUMMARY OF AUDITOR'S RESULTS (Continued)**

**State Project**

Statewide Surface Water Restoration and Wastewater Projects

CSFA No. 37.039

8. The threshold used for distinguishing between Type A and B programs was \$750,000 for major federal programs and \$300,000 for major state project.
9. Florida Institute for Human and Machine Cognition, Inc. was determined to be a low-risk auditee pursuant to 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 the Uniform Guidance.

**D. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT**

In accordance with Rules of the Auditor General, Section 10.656(3)(e), no management letter is required because there were not findings required to be reported in the management letter.