

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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.

## 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, 2018 and 2017, 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*, 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 23, 2018, 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 23, 2018

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

**ASSETS**

	2018	2017
Cash	\$ 5,115,590	\$ 3,034,112
Restricted cash held by trustee	688,624	883,416
Grants and contracts receivables	2,984,530	3,266,078
Other receivables	17,703	-
Pledge receivable	97,794	97,794
Prepaid expenses	89,771	91,186
Property and equipment, net	18,481,425	16,902,170
Deposits	12,522	19,196
	\$ 27,487,959	\$ 24,293,952

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 1,007,973	\$ 390,740
Accrued payroll and related liabilities	485,820	461,637
Accrued interest	88,624	78,398
Refundable advances	43,802	42,283
Long-term debt	11,188,792	9,924,838
Total liabilities	12,815,011	10,897,896

**Commitments and Contingencies**

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**Net Assets:**

Unrestricted	14,337,171	13,150,609
Temporarily restricted	335,777	245,447
Total net assets	14,672,948	13,396,056

**Total Liabilities and Net Assets**

\$ 27,487,959      \$ 24,293,952

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, 2018 AND 2017**

	2018	2017
<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	\$ 6,844,604	\$ 6,586,932
Other grants and contracts	7,094,765	6,235,658
Legislative appropriation	3,739,184	4,739,184
Contributions	1,420,708	1,038,158
Other revenue	237,354	50,246
Net assets released from restrictions	153,468	185,824
Total support, revenue and reclassifications	19,490,083	18,836,002
<b>Expenses:</b>		
Program services -		
Research and development grants and contracts	14,968,177	13,241,227
Other program services	304,750	133,438
Total program services	15,272,927	13,374,665
Supporting services -		
Fundraising services -		
Salaries and employee benefits	58,436	57,043
Other fundraising expenses	8,441	2,113
	66,877	59,156
General and administrative	2,963,717	3,277,997
Total supporting services	3,030,594	3,337,153
Total expenses	18,303,521	16,711,818
Change in unrestricted net assets	1,186,562	2,124,184

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, 2018 AND 2017**  
**(Continued)**

	<u>2018</u>	<u>2017</u>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	243,798	293,098
Net assets released from restrictions	<u>(153,468)</u>	<u>(185,824)</u>
Change in temporarily restricted net assets	<u>90,330</u>	<u>107,274</u>
<b>Change in Net Assets</b>	1,276,892	2,231,458
<b>Net Assets, Beginning of Year</b>	<u>13,396,056</u>	<u>11,164,598</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 14,672,948</u></u>	<u><u>\$ 13,396,056</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, 2018 AND 2017**

	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,276,892	\$ 2,231,458
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	863,421	738,467
Amortization of debt issuance costs	5,465	5,464
Bad debt expense	35,674	106,007
Donated stock	(1,117,535)	-
Gain on sale of donated stock	(206)	-
Changes in operating assets and liabilities -		
Grants and contracts receivables	245,874	(1,456,227)
Pledge receivable	-	(97,794)
Other receivables	(17,703)	7,495
Prepaid expenses	1,415	(38,280)
Other assets	6,674	(88,969)
Accounts payable	617,233	(264,510)
Retainage payable	-	(131,475)
Accrued payroll and related liabilities	24,183	28,260
Accrued interest	10,226	(5,315)
Refundable advances	1,519	25,275
Net cash provided by operating activities	1,953,132	1,059,856
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of investments	1,117,741	-
Purchases of property and equipment	(442,676)	(1,734,609)
Net cash provided by (used in) investing activities	675,065	(1,734,609)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from note issuance	223,351	-
Principal payments of long-term debt	(741,511)	(677,000)
Increase in restricted cash for debt service	(28,559)	(12,185)
Net cash used in financing activities	(546,719)	(689,185)
<b>Net Increase (Decrease) in Cash</b>	2,081,478	(1,363,938)
<b>Cash at Beginning of Year</b>	3,034,112	4,398,050
<b>Cash at End of Year</b>	\$ 5,115,590	\$ 3,034,112
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	\$ 308,659	\$ 322,450
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Purchase of land with long-term debt	\$ 2,000,000	\$ -

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, 2018 AND 2017**

**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, 2018 and 2017.

*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, 2018 AND 2017**

**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, 2018 and 2017 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, 2018 AND 2017**

**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, 2018 and 2017.

*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, 2018 AND 2017**

**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 23, 2018, the date which the financial statements were available for issue.

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

Restricted cash is comprised of the following:

	2018	2017
Undisbursed debt proceeds - construction	\$ -	\$ 223,351
Debt service -		
Note principal	600,000	581,667
Note interest	88,624	78,398
	\$ 688,624	\$ 883,416

**NOTE 3 - PLEDGE RECEIVABLE**

Pledge receivable at June 30, 2018 and 2017 consists of the following:

	2018	2017
In one year or less	\$ 100,000	\$ 50,000
Between one and five years	-	50,000
Total pledges receivable	100,000	100,000
Less discounts to net present value	2,206	2,206
	\$ 97,794	\$ 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, 2018 AND 2017**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,316,994	\$ 1,302,872
Buildings	16,439,720	15,524,976
Computers and software	1,524,188	1,482,656
Machinery and equipment	1,463,774	1,405,746
Robotics	939,919	823,054
Furniture and fixtures	771,849	737,600
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	92,678	837,891
	<u>24,623,697</u>	<u>22,189,370</u>
Less accumulated depreciation and amortization	<u>6,142,272</u>	<u>5,287,200</u>
	<u>\$ 18,481,425</u>	<u>\$ 16,902,170</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$863,421 and \$738,467, respectively.

Construction in progress at June 30, 2018 represent costs for a new roof at the Ocala location. Construction in progress at June 30, 2017 represent costs for a drainage project.

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 of interest in connection with the construction of the new research facility for the year ended June 30, 2017.

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, 2018 AND 2017**

**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:

	2018	2017
\$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	\$ 9,289,000	\$ 9,987,000
\$2,000,000 Note, due in monthly installments of \$10,557, from August 21, 2017 through June 21, 2027, balloon payment due July 21, 2027, with an interest rate of 4%, secured by mortgage and security agreement	1,956,489	-
	11,245,489	9,987,000
Less unamortized debt issuance costs	56,697	62,162
Long-term debt, net of unamortized debt issuance costs	\$ 11,188,792	\$ 9,924,838

Maturities of the revenue note are as follows:

Year ending June 30,	
2019	\$ 769,319
2020	794,328
2021	819,420
2022	845,596
2023	872,861
Thereafter	7,143,965
	\$ 11,245,489

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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 was disbursed by the County during 2018 as IHMC received 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, 2018 and 2017 are presented as follows:

	2018	2017
Educational Outreach Youth Programs	\$ 69,049	\$ 39,099
Research projects	100,000	100,000
Future periods	48,533	97,794
Capital improvements	107,322	-
Other	10,873	8,554
	\$ 335,777	\$ 245,447

**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, 2018 AND 2017**

**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 \$971,864 in 2018 and \$919,178 in 2017.

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, 2018, IHMC had cash balances in excess of insured limits of approximately \$1,949,000.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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 25, 2019. IHMC had no amounts outstanding as of June 30, 2018 and 2017 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.

Rental expense for operating leases for the year ended June 30, 2017 was \$18,842.

*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 2017 and 2018, ONR issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2015. Some of the finalized rates were lower than those rates applied by IHMC during the time under audit. 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.

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.

**SUPPLEMENTARY INFORMATION**

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Salaries	\$ 2,950,634	\$ 2,979,806
Payroll taxes	186,220	180,470
Employee benefit programs	491,826	493,667
Administrative travel	133,965	100,641
Meals and entertainment	19,756	24,124
Insurance	208,503	203,544
Legal and professional	410,804	451,992
Occupancy, including in-kind	505,929	430,211
Interest expense	396,963	214,526
Repairs and maintenance	7,577	8,725
Office expenses	235,044	299,376
Bad debt	35,674	106,007
Telephone	68,856	61,769
Lobbying costs	153,913	150,574
Licenses and fees	44,379	17,245
Memberships and continuing education	40,225	42,790
Employee morale and welfare	22,033	21,761
Other	62,638	46,415
Depreciation	863,421	738,467
Indirect applied overhead, payroll taxes and employee benefits	<u>(3,874,643)</u>	<u>(3,294,113)</u>
<b>Total General and Administrative Expenses</b>	<u><u>\$ 2,963,717</u></u>	<u><u>\$ 3,277,997</u></u>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**

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>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	\$ 127,152	\$ -
<b><u>U.S Department of Commerce</u></b>				
Cross-Field Methodologies for Research in Data Science	11.609	70NANB17H210	106,310	-
<b><u>Office of Naval Research</u></b>				
Human Fuel for Optimizing Cold Water Performance	12.300	N00014-18-1-2115	121,751	-
Concept Map-Based Knowledge Modeling of Undersea Medicine	12.300	N00014-16-P-3025	59,023	-
<b>Total Office of Naval Research</b>			<b>180,774</b>	<b>-</b>
<b><u>Department of the Army</u></b>				
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	1,578,521	467,628
<b><u>Army Research Laboratory</u></b>				
Deep Reading to Understand Mechanisms	12.431	W911NF-14-1-0391	365,881	39,561
WorldModeler	12.431	W911NF-167-1-0047	906,972	388,442
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	411,071	-
<b>Total Army Research Laboratory</b>			<b>1,683,924</b>	<b>428,003</b>
<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	86,867	45,253
Wearable Sensor Suite and Cognitive Gauges for a Quantified Warrior	12.800	FA8650-16-1-6771	812,913	211,691
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	470,552	251,348
<b>Total Department of the Air Force</b>			<b>1,370,332</b>	<b>508,292</b>

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**  
**(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>				
Mobility and Planning Algorithms for NASA JSC Valkyrie Robot	43.001	80NSSC18M0071	75,805	-
Cervical Lymphatic	43.003	NNX16A069A	46,517	-
Grasshopper Exercise Prototype	43.003	NNX17AJ56A	587,698	-
			<u>634,215</u>	<u>-</u>
NRI LG: Toward Humanoid Avatar Robots for Co-Exploration of Hazardous Environments	43.009	NNX12AP97G	690,315	-
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	38,045	-
			<u>728,360</u>	<u>-</u>
<b>Total National Aeronautics and Space Administration</b>			<u>1,438,380</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	32,558	-
Collaborative Research: FITTLE+: Theory and Models for Smartphone Ecological Momentary Intervention	47.070	IIS-1757520	182,202	92,157
<b>Total National Science Foundation</b>			<u>214,760</u>	<u>92,157</u>
<b><u>National Institute on Aging</u></b>				
<b>Passed through University of Miami</b>				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	SPC-000464	120,545	-
<b>Passed through Cornell University</b>				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	SPC-000464	23,906	-
<b>Total National Institute on Aging</b>			<u>144,451</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 6,844,604</u>	<u>\$ 1,496,080</u>

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

## **OTHER REPORTS AND SCHEDULE**

**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, 2018, 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 23, 2018.

**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 23, 2018

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY 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 IHMC’s major federal program for the year ended June 30, 2018. IHMC’s major federal program is 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 program.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for IHMC’s major federal program 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; and 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”). Those standards 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 its major federal program for the year ended June 30, 2018.

### **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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida  
October 23, 2018

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**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 program are reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Florida Institute for Human and Machine Cognition, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major federal program 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.
7. The program tested as the major program 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
Science	CFDA No. 43.001
Exploration	CFDA No. 43.003
Cross Agency Support	CFDA No. 43.009
Computer and Information Science and Engineering	CFDA No. 47.070
Aging Research	CFDA No. 93.866

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**  
**(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 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 program which are required to be reported in accordance with the Uniform Guidance.