

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

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FINANCIAL STATEMENTS

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CONTENTS

	PAGE
Audited Financial Statements:	
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information:	
Schedule of Expenditures of Federal Awards	20
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 <i>Government Auditing Standards</i>	22
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	24
Schedule of Findings and Questioned Costs	26

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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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 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 November 5, 2019, 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
November 5, 2019

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Current Assets:		
Cash	\$ 3,885,570	\$ 5,115,590
Restricted cash held by trustee	650,973	688,624
Grants and contracts receivables	3,358,058	2,984,530
Other receivables	-	17,703
Pledge receivable	47,794	97,794
Prepaid expenses	121,411	89,771
Total current assets	8,063,806	8,994,012
Property and Equipment, net	18,487,437	18,481,425
Other Assets:		
Deposits	12,522	12,522
Total Assets	\$ 26,563,765	\$ 27,487,959

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of long-term debt	\$ 701,328	\$ 698,000
Accounts payable	1,077,486	1,007,973
Accrued payroll and related liabilities	548,935	485,820
Accrued interest	96,250	88,624
Refundable advances	219,179	43,802
Total current liabilities	2,643,178	2,324,219
Long-Term Debt, less current maturities	8,854,610	10,490,792
Total liabilities	11,497,788	12,815,011
Net Assets:		
Without donor restrictions	14,955,631	14,337,171
With donor restrictions	110,346	335,777
Total net assets	15,065,977	14,672,948
Total Liabilities and Net Assets	\$ 26,563,765	\$ 27,487,959

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, 2019 AND 2018

	2019	2018
Change in Net Assets Without Donor Restrictions:		
Support, Revenue and Reclassifications:		
Research and development grants and contracts -		
Federal, state and pass-through grants	\$ 6,349,960	\$ 6,844,604
Other grants and contracts	8,142,778	7,094,765
Legislative appropriation	3,239,184	3,739,184
Contributions	432,549	1,420,708
Other revenue	57,666	237,354
Net assets released from restrictions	231,931	153,468
	18,454,068	19,490,083
 Expenses:		
Program services -		
Research and development grants and contracts	15,577,359	14,968,177
Other program services	112,003	304,750
Total program services	15,689,362	15,272,927
Supporting services -		
Fundraising services -		
Salaries and employee benefits	65,006	58,436
Other fundraising expenses	-	8,441
	65,006	66,877
General and administrative	2,991,298	2,963,717
Total supporting services	3,056,304	3,030,594
	18,745,666	18,303,521
 Change in net assets without donor restrictions from operating activities	(291,598)	1,186,562
 Nonoperating Activities:		
Insurance proceeds	41,058	-
Gain on bond refund	869,000	-
Total nonoperating activities	910,058	-
 Change in net assets without donor restrictions	618,460	1,186,562

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, 2019 AND 2018
(Continued)

	<u>2019</u>	<u>2018</u>
Change in Net Assets With Donor Restrictions:		
Contributions	6,500	243,798
Net assets released from restrictions	<u>(231,931)</u>	<u>(153,468)</u>
Change in net assets with donor restrictions	<u>(225,431)</u>	<u>90,330</u>
Change in Net Assets	393,029	1,276,892
Net Assets, Beginning of Year	<u>14,672,948</u>	<u>13,396,056</u>
Net Assets, End of Year	<u><u>\$ 15,065,977</u></u>	<u><u>\$ 14,672,948</u></u>

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program			General and Administrative	Fundraising	2019 Total
	Research and development grants and contract	Other program services	Total program services			
Salaries	\$ 6,900,399	\$ -	\$ 6,900,399	\$ 3,086,735	\$ 50,224	\$ 10,037,358
Payroll taxes	454,706	-	454,706	195,048	3,879	653,633
Employee benefit programs	1,220,705	-	1,220,705	552,677	10,903	1,784,285
Subcontract	1,540,048	-	1,540,048	-	-	1,540,048
Travel	516,233	6,726	522,959	135,220	-	658,179
Meals and entertainment	25,818	28,729	54,547	15,674	-	70,221
Insurance	-	-	-	228,137	-	228,137
Legal and professional	158,764	61,890	220,654	395,229	-	615,883
Occupancy, including in-kind	-	-	-	483,618	-	483,618
Interest expense	-	-	-	458,568	-	458,568
Repairs and maintenance	-	-	-	6,728	-	6,728
Office expenses	469,294	-	469,294	212,976	-	682,270
Bad debt	-	-	-	171,520	-	171,520
Telephone	-	-	-	63,571	-	63,571
Lobbying costs	-	-	-	149,550	-	149,550
Licenses and fees	41,973	-	41,973	79,500	-	121,473
Memberships and continuing education	710	-	710	33,014	-	33,724
Employee morale and welfare	1,521	-	1,521	39,011	-	40,532
Other	9,936	14,658	24,594	28,766	-	53,360
Depreciation	-	-	-	893,008	-	893,008
Indirect applied overhead, payroll taxes and employee benefits	4,237,252	-	4,237,252	(4,237,252)	-	-
Total	\$ 15,577,359	\$ 112,003	\$ 15,689,362	\$ 2,991,298	\$ 65,006	\$ 18,745,666

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(Continued)

	Program			General and Administrative	Fundraising	2018 Total
	Research and development grants and contract	Other program services	Total program services			
Salaries	\$ 6,900,518	\$ -	\$ 6,900,518	\$ 2,950,634	\$ 44,806	\$ 9,895,958
Payroll taxes	461,960	-	461,960	186,220	3,507	651,687
Employee benefit programs	1,256,632	-	1,256,632	491,826	10,123	1,758,581
Subcontract	1,496,080	-	1,496,080	-	-	1,496,080
Travel	516,694	8,746	525,440	133,965	-	659,405
Meals and entertainment	38,531	27,816	66,347	19,756	2,370	88,473
Insurance	-	-	-	208,503	-	208,503
Legal and professional	69,502	62,597	132,099	410,804	-	542,903
Occupancy, including in-kind	-	-	-	505,929	-	505,929
Interest expense	-	-	-	396,963	-	396,963
Repairs and maintenance	-	-	-	7,577	-	7,577
Office expenses	276,034	-	276,034	235,044	6,071	517,149
Bad debt	-	-	-	35,674	-	35,674
Telephone	-	-	-	68,856	-	68,856
Lobbying costs	-	-	-	153,913	-	153,913
Licenses and fees	27,626	-	27,626	44,379	-	72,005
Memberships and continuing education	6,571	-	6,571	40,225	-	46,796
Employee morale and welfare	1,328	-	1,328	22,033	-	23,361
Other	42,058	205,591	247,649	62,638	-	310,287
Depreciation	-	-	-	863,421	-	863,421
Indirect applied overhead, payroll taxes and employee benefits	3,874,643	-	3,874,643	(3,874,643)	-	-
Total	\$ 14,968,177	\$ 304,750	\$ 15,272,927	\$ 2,963,717	\$ 66,877	\$ 18,303,521

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, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ 393,029	\$ 1,276,892
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	893,008	863,421
Amortization of debt issuance costs	5,465	5,465
Bad debt expense	171,520	35,674
Donated stock	-	(1,117,535)
Gain on refund of long-term debt	(869,000)	-
Gain on sale of donated stock	-	(206)
Loss on disposition of property and equipment	125	-
Changes in operating assets and liabilities -		
Grants and contracts receivables	(545,048)	245,874
Pledge receivable	50,000	-
Other receivables	17,703	(17,703)
Prepaid expenses	(31,640)	1,415
Other assets	-	6,674
Accounts payable	69,513	617,233
Accrued payroll and related liabilities	63,115	24,183
Accrued interest	7,626	10,226
Refundable advances	175,377	1,519
Net cash provided by operating activities	400,793	1,953,132
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-	1,117,741
Purchases of property and equipment	(899,145)	(442,676)
Net cash provided by (used in) investing activities	(899,145)	675,065
Cash Flows From Financing Activities:		
Proceeds from note issuance	-	223,351
Principal payments of long-term debt	(769,319)	(741,511)
Decrease (Increase) in restricted cash for debt service	37,651	(28,559)
Net cash used in financing activities	(731,668)	(546,719)
Net Increase (Decrease) in Cash	(1,230,020)	2,081,478
Cash at Beginning of Year	5,115,590	3,034,112
Cash at End of Year	\$ 3,885,570	\$ 5,115,590
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 368,116	\$ 308,659
Supplemental Disclosure of Non-Cash Investing Activities and Financing Activities:		
Trade-in value received for property and equipment	\$ 19,250	\$ -
Gain on refund of long-term debt	\$ 869,000	\$ -
Refunding of long-term debt	\$ 7,700,000	\$ -
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, 2019 AND 2018

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:

Net assets with donor restrictions are subject to donor-imposed stipulations that can be fulfilled by actions of IHMC pursuant to those stipulations, that expire by the passage of time, or 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.

Net assets without donor restrictions are not subject to donor-imposed stipulations, or the donor-imposed restrictions have expired. Net assets without donor restrictions 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.

Measure of Operations:

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to IHMC’s ongoing activities. Non-operating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 revenues with donor restrictions if the donor limits the use of the donated assets. When the restrictions expire, these net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as *net assets released from restrictions*. Donor-restricted contributions are classified as revenues without donor restrictions 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, 2019 and 2018 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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash:

Restricted cash represents funds held by the note trustee for 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 statements of functional expenses and totaled \$5,465 for each of the years ended June 30, 2019 and 2018.

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, 2019 AND 2018

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.

New Accounting Pronouncement:

During 2019, IHMC implemented Accounting Standards Update (“ASU”) 2016-14, *Not-For-Profit Entities-Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 requires not-for-profit entities to present on the statement of financial position amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes previously required, add disclosure regarding the entity’s liquidity and allocation of expenses. ASU 2016-14 has been applied retrospectively. The adoption of this standard did not materially impact IHMC’s financial position, results of operations or cash flows.

Subsequent Events:

Management has evaluated subsequent events through November 5, 2019, the date which the financial statements were available for issue.

NOTE 2 - RESTRICTED CASH HELD BY TRUSTEE

Restricted cash is comprised of the following:

	2019	2018
Debt service -		
Note principal	\$ 554,723	\$ 600,000
Note interest	96,250	88,624
	\$ 650,973	\$ 688,624

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 - PLEDGE RECEIVABLE

Pledge receivable at June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 50,000	\$ 100,000
Less discounts to net present value	<u>2,206</u>	<u>2,206</u>
Net pledges receivable	<u>\$ 47,794</u>	<u>\$ 97,794</u>

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

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,316,994	\$ 3,316,994
Buildings	17,134,422	16,439,720
Computers and software	1,629,681	1,524,188
Machinery and equipment	1,579,594	1,463,774
Robotics	1,009,975	939,919
Furniture and fixtures	771,849	771,849
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	-	92,678
	<u>25,517,090</u>	<u>24,623,697</u>
Less accumulated depreciation and amortization	<u>7,029,653</u>	<u>6,142,272</u>
	<u>\$ 18,487,437</u>	<u>\$ 18,481,425</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$893,008 and \$863,421, respectively.

Construction in progress at June 30, 2018 represented costs for a new roof at the Ocala location.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

IHMC capitalizes interest costs on borrowings incurred during the construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Certain fixed assets of IHMC were purchased with federal, state and local grants and contracts. As a result, if such assets are disposed, the granting agency that participated in the funding of the purchase has a contractual right to participate in the proceeds from the disposition. Also, at the end of the project for which the asset was purchased, the granting agency has the right to reclaim such equipment. IHMC accounts for these items separately until final release of the item has been received by IHMC.

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	2019	2018
\$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
\$7,700,000 Capital Improvement Refunding Revenue Bonds, Series 2018, due in monthly installments of \$47,638 to \$76,667, from January 1, 2019 through September 1, 2028 with an interest rate of 5%, secured by mortgage and security agreement	7,700,000	-
\$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	1,907,170	1,956,489
	9,607,170	11,245,489
Less unamortized debt issuance costs	51,232	56,697
	9,555,938	11,188,792
Less current maturities	701,328	698,000
	\$ 8,854,610	\$ 10,490,792
Long-term debt, less current maturities	\$ 8,854,610	\$ 10,490,792

Scheduled maturities on long-term debt are as follows:

2020	\$ 701,328
2021	713,420
2022	745,596
2023	772,861
2024	805,218
Thereafter	5,868,747
	\$ 9,607,170
	\$ 9,607,170

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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. During 2019, the County refunded the \$12,000,000 industrial development revenue note and issued \$7,700,000 Capital Improvement Refunding Revenue Bonds, Series 2018. The refunding resulted in a gain of \$869,000.

NOTE 6 - NET ASSETS

Net assets with donor restrictions include contributions 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. Net assets with donor restrictions at June 30, 2019 and 2018 are presented as follows:

	2019	2018
Educational Outreach Youth Programs	\$ 49,481	\$ 69,049
Research projects	56,991	100,000
Future periods	-	48,533
Capital improvements	-	107,322
Other	3,874	10,873
	\$ 110,346	\$ 335,777

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 - RETIREMENT PLANS

IHMC established a defined contribution retirement plan that operates under Section 403(b) of the Internal Revenue Code on March 1, 2005. The purpose of the plan is to provide retirement benefits for participating employees. Benefits are provided through Teachers Insurance and Annuity Association (“TIAA”), College Retirement Equities Fund (“CREF”). The plan year begins on July 1 and ends on June 30. All benefits under the Plan are fully funded and provided through the funding vehicle(s) selected by the participant. Benefits are not subject to, nor covered by, federal plan termination insurance.

The plan covers substantially all employees except part-time and leased. IHMC contributes 11% of eligible employee’s compensation on a bi-weekly basis. Contributions to the plan amounted to \$979,006 in 2019 and \$971,864 in 2018.

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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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, 2019, IHMC had cash balances in excess of insured limits of approximately \$1,954,000.

Line of Credit:

IHMC has a revolving, unsecured, \$2,000,000 line of credit with a financial institution. The line of credit carries interest of 2.5% over the one-month LIBOR rate and expires on February 25, 2020. IHMC had no amounts outstanding as of June 30, 2019 and 2018 under the line of credit.

Lease Commitments:

During the year ended June 30, 2019, IHMC began renting office equipment and office space under operating leases expiring through May 2022. Future minimum lease payments under these leases are as follow:

<u>Year ending June 30,</u>	
2020	\$ 19,895
2021	6,517
2022	<u>2,398</u>
	<u>\$ 28,810</u>

Rental expense for operating leases for the year ended June 30, 2019 was \$23,738.

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, 2018 and 2019, ONR issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2017. 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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies (Continued):

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.

NOTE 10 - LIQUIDITY

IHMC's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 3,885,570
Grants and contracts receivable	3,358,058
Pledges receivable	<u>47,794</u>
	<u>\$ 7,291,422</u>

As part of IHMC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, IHMC has a \$2,000,000 line of credit which it could draw upon.

SUPPLEMENTARY INFORMATION

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<u>Research and Development Cluster:</u>				
<u>National Oceanic and Atmospheric Administration (NOAA)</u>				
<u>Cooperative Institutes</u>				
Passed through Florida Atlantic University				
The Cooperative Institute for Ocean Exploration, Research and Technology (CIOERT) Years 6-10	11.432	NA14OAR4320260	\$ 133,203	\$ -
<u>Office of Naval Research</u>				
Human Fuel for Optimizing Cold Water Performance	12.300	N00014-18-1-2115	439,453	-
High Speed Humanoid Behaviors for Urban Operations	12.300	N00014-19-1-2023	181,134	-
Advancing Artificial Intelligence for the Naval Domain	12.300	N00014-19-1-2308	154,843	-
Total Office of Naval Research			<u>775,430</u>	<u>-</u>
<u>Department of the Army</u>				
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	1,761,657	603,366
<u>Army Research Laboratory</u>				
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	649,756	60,000
WorldModeler	12.431	W911NF-167-1-0047	101,626	88,753
Collaborative World Modeling	12.910	W911NF-18-1-0464	479,719	-
Total Army Research Laboratory			<u>1,231,101</u>	<u>148,753</u>
<u>Department of the Air Force</u>				
<u>Air Force Research Laboratory</u>				
Wearable Sensor Suite and Cognitive Gauges for a Quantified Warrior	12.800	FA8650-16-1-6771	669,950	360,746
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	412,175	202,658
Total Department of the Air Force			<u>1,082,125</u>	<u>563,404</u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019
(Continued)

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<u>National Aeronautics and Space Administration,</u>				
<u>NASA Shared Services Center</u>				
Mobility and Planning Algorithms for NASA JSC Valkyrie Robot	43.001	80NSSC18M0071	669,672	-
Cervical Lymphatic	43.003	NNX16A069A	75,585	-
Advanced Concepts for Human Space Exploration	43.003	NNX11AR31A	91,203	-
Grasshopper Exercise Prototype	43.003	NNX17AJ56A	85,663	-
			<u>252,451</u>	<u>-</u>
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	240,615	-
Total National Aeronautics and Space Administration			<u>1,162,738</u>	<u>-</u>
<u>National Science Foundation</u>				
NRI: Collaborative: Optimal Interaction Design Framework for Powered Lower-Extremity Exoskeletons	47.070	IIS-1427213	43,574	-
Collaborative Research: FITTLE+: Theory and Models for Smartphone Ecological Momentary Intervention	47.070	IIS-1757520	2,145	-
Total National Science Foundation			<u>45,719</u>	<u>-</u>
<u>National Institute on Aging</u>				
Passed through University of Miami				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	SPC-000464	157,987	-
Total Expenditures of Federal Awards			<u>\$ 6,349,960</u>	<u>\$ 1,315,523</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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2019.

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 of 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
November 5, 2019

**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, 2019. 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, 2019.

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
November 5, 2019

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

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
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, 2019
(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.