

# Saltmarsh

Saltmarsh, Cleaveland & Gund

*CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS*

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IHMC as of June 30, 2022 and 2021, 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.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of IHMC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about IHMC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibility**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 IHMC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about IHMC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

### **Supplementary Information**

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 10, 2022, 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 10, 2022

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2022 AND 2021**

**ASSETS**

	2022	2021
<b>Current Assets:</b>		
Cash	\$ 2,725,325	\$ 4,439,584
Restricted cash held by trustee	667,083	654,875
Grants and contracts receivables	4,980,341	4,695,159
Prepaid expenses	101,750	204,561
Total current assets	8,474,499	9,994,179
 <b>Property and Equipment, net</b>	 19,614,607	 17,990,550
 <b>Other Assets:</b>		
Deposits	11,522	14,522
 <b>Total Assets</b>	 \$ 28,100,628	 \$ 27,999,251

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 757,358	\$ 745,596
Accounts payable	1,569,920	2,529,574
Accrued payroll and related liabilities	986,256	781,687
Accrued interest	71,250	79,875
Refundable advances	357,384	516,426
Total current liabilities	3,742,168	4,653,158
 <b>Long-Term Debt, less current maturities</b>	 6,654,404	 7,406,523
Total liabilities	10,396,572	12,059,681
 <b>Net Assets:</b>		
Without donor restrictions	17,608,003	15,809,468
With donor restrictions	96,053	130,102
Total net assets	17,704,056	15,939,570
 <b>Total Liabilities and Net Assets</b>	 \$ 28,100,628	 \$ 27,999,251

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, 2022 AND 2021**

	2022	2021
<b>Change in Net Assets Without Donor Restrictions:</b>		
<b>Support, Revenue and Reclassifications:</b>		
Research and development grants and contracts -		
Federal grants	\$ 3,040,897	\$ 3,607,094
Other grants and contracts	20,765,572	17,742,498
Legislative appropriation	4,039,184	2,739,184
Contributions	75,625	765,754
Other revenue	331,838	156,668
Net assets released from restrictions	79,446	20,239
Total support, revenue and reclassifications	28,332,562	25,031,437
<b>Expenses:</b>		
Program services -		
Research and development grants and contracts	22,942,762	22,145,803
Other program services	77,787	60,000
Total program services	23,020,549	22,205,803
Supporting services -		
Fundraising services -		
Salaries and employee benefits	31,096	-
General and administrative	3,482,382	2,955,860
Total supporting services	3,513,478	2,955,860
Total expenses	26,534,027	25,161,663
Change in net assets without donor restrictions from operating activities	1,798,535	(130,226)

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, 2022 AND 2021**  
**(Continued)**

	<u>2022</u>	<u>2021</u>
<b>Change in Net Assets With Donor Restrictions:</b>		
Contributions	45,397	30,000
Net assets released from restrictions	<u>(79,446)</u>	<u>(20,239)</u>
Change in net assets with donor restrictions	<u>(34,049)</u>	<u>9,761</u>
<b>Change in Net Assets</b>	1,764,486	(120,465)
<b>Net Assets, Beginning of Year</b>	<u>15,939,570</u>	<u>16,060,035</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 17,704,056</u></u>	<u><u>\$ 15,939,570</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, 2022**

	Program			General and Administrative	Fundraising	2022 Total
	Research and development grants and contract	Other program services	Total program services			
Salaries	\$ 8,315,868	\$ -	\$ 8,315,868	\$ 4,384,871	\$ 25,096	\$ 12,725,835
Payroll taxes	554,898	-	554,898	269,804	1,963	826,665
Employee benefit programs	1,591,665	-	1,591,665	792,459	4,037	2,388,161
Subcontract	5,790,717	-	5,790,717	-	-	5,790,717
Travel	242,719	1,292	244,011	52,827	-	296,838
Meals and entertainment	11,279	4,495	15,774	20,034	-	35,808
Insurance	-	-	-	307,860	-	307,860
Legal and professional	439,185	60,600	499,785	430,007	-	929,792
Occupancy, including in-kind	-	-	-	510,514	-	510,514
Interest expense	-	-	-	379,101	-	379,101
Repairs and maintenance	-	-	-	24,014	-	24,014
Office expenses	436,235	-	436,235	289,786	-	726,021
Bad debt	-	-	-	144	-	144
Telephone	-	-	-	78,678	-	78,678
Lobbying costs	-	-	-	199,126	-	199,126
Licenses and fees	152,269	-	152,269	103,230	-	255,499
Memberships and continuing education	5	-	5	45,591	-	45,596
Employee morale and welfare	-	-	-	32,442	-	32,442
Other	9,588	11,400	20,988	47,570	-	68,558
Depreciation	-	-	-	912,658	-	912,658
Indirect applied overhead, payroll taxes and employee benefits	5,398,334	-	5,398,334	(5,398,334)	-	-
<b>Total</b>	<u>\$ 22,942,762</u>	<u>\$ 77,787</u>	<u>\$ 23,020,549</u>	<u>\$ 3,482,382</u>	<u>\$ 31,096</u>	<u>\$ 26,534,027</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, 2021**  
**(Continued)**

	Program			General and Administrative	Fundraising	2021 Total
	Research and development grants and contract	Other program services	Total program services			
Salaries	\$ 7,578,724	\$ -	\$ 7,578,724	\$ 3,694,873	\$ -	\$ 11,273,597
Payroll taxes	503,755	-	503,755	220,569	-	724,324
Employee benefit programs	1,417,850	-	1,417,850	667,200	-	2,085,050
Subcontract	6,323,115	-	6,323,115	-	-	6,323,115
Travel	208,875	-	208,875	34,164	-	243,039
Meals and entertainment	5,008	-	5,008	5,221	-	10,229
Insurance	-	-	-	289,519	-	289,519
Legal and professional	439,215	60,000	499,215	407,933	-	907,148
Occupancy, including in-kind	-	-	-	571,555	-	571,555
Interest expense	-	-	-	403,726	-	403,726
Repairs and maintenance	-	-	-	15,851	-	15,851
Office expenses	402,930	-	402,930	250,749	-	653,679
Bad debt	-	-	-	54,214	-	54,214
Telephone	-	-	-	81,590	-	81,590
Lobbying costs	-	-	-	152,195	-	152,195
Licenses and fees	112,140	-	112,140	92,799	-	204,939
Memberships and continuing education	815	-	815	36,468	-	37,283
Employee morale and welfare	110	-	110	29,369	-	29,479
Other	5,928	-	5,928	25,848	-	31,776
Depreciation	-	-	-	1,069,355	-	1,069,355
Indirect applied overhead, payroll taxes and employee benefits	5,147,338	-	5,147,338	(5,147,338)	-	-
<b>Total</b>	<b>\$ 22,145,803</b>	<b>\$ 60,000</b>	<b>\$ 22,205,803</b>	<b>\$ 2,955,860</b>	<b>\$ -</b>	<b>\$ 25,161,663</b>

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, 2022 AND 2021**

	2022	2021
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,764,486	\$ (120,465)
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	912,658	1,069,355
Amortization of debt issuance costs	13,288	5,465
Loss on disposition of property and equipment	218	3,333
Changes in operating assets and liabilities -		
Grants and contracts receivables	(285,326)	(435,530)
Prepaid expenses	102,811	(77,564)
Other assets	3,000	(3,000)
Accounts payable	(959,654)	618,918
Accrued payroll and related liabilities	204,569	140,628
Accrued interest	(8,625)	(8,250)
Refundable advances	(159,042)	(118,078)
Net cash provided by operating activities	1,588,527	1,129,026
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(2,536,933)	(564,539)
<b>Cash Flows From Financing Activities:</b>		
Principal payments of long-term debt	(765,264)	(713,420)
Proceeds from mortgage refinance	11,619	-
Net cash used in financing activities	(753,645)	(713,420)
<b>Net Decrease in Cash</b>	(1,702,051)	(148,933)
<b>Cash at Beginning of Year</b>	5,094,459	5,243,392
<b>Cash at End of Year</b>	\$ 3,392,408	\$ 5,094,459
<b>Displayed As:</b>		
Cash	\$ 2,725,325	\$ 4,439,584
Restricted cash held by trustee	667,083	654,875
	\$ 3,392,408	\$ 5,094,459
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	\$ 374,438	\$ 333,250
<b>Supplemental Disclosure of Noncash Financing Activities:</b>		
Financing costs paid from long-term debt proceeds	\$ 399,329	\$ -
Refinancing costs paid from long-term debt proceeds	\$ 1,760,934	\$ -

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, 2022 AND 2021**

**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, 2022 AND 2021**

**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, 2022 and 2021 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, 2022 AND 2021**

**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 \$13,288 and \$5,465 for the years ended June 30, 2022 and 2021, respectively.

*Property and Equipment:*

Property and equipment are recorded at cost or at their estimated fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building	15-39 years
Computers and software	3-5 years
Machinery and equipment	5-30 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. Depreciation of idle equipment is discontinued until such assets are placed back into service. IHMC did not incur any impairment losses related to idle equipment.

*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.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Advertising Costs:*

Advertising costs are expensed when incurred.

*Income Taxes:*

IHMC is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as a public charity. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

*Upcoming Accounting Pronouncement:*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The guidance in this topic supersedes the requirements in Accounting Standards Codification Topic 840, *Leases*. The update will require business entities to recognize lease assets and liabilities on the balance sheet and to disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Management does not expect adoption of ASU 2016-02 to have a significant impact on IHMC’s financial statements.

*Subsequent Events:*

Management has evaluated subsequent events through November 10, 2022, the date on which the financial statements were available for issue.

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

Restricted cash is comprised of the following:

	2022	2021
Debt service -		
Note principal	\$ 595,833	\$ 575,000
Note interest	71,250	79,875
	\$ 667,083	\$ 654,875

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

	2022	2021
Land	\$ 3,316,994	\$ 3,316,994
Buildings	17,651,097	17,134,422
Computers and software	1,182,327	1,182,327
Machinery and equipment	2,125,393	1,435,185
Robotics	1,014,362	963,218
Furniture and fixtures	895,169	771,849
Vehicle	54,197	54,197
	26,239,539	24,858,192
Less accumulated depreciation and amortization	8,495,037	7,582,376
	17,744,502	17,275,816
Art collection	5,950	5,950
Idle equipment, net	153,057	-
Construction in progress	1,711,098	708,784
	\$ 19,614,607	\$ 17,990,550

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$912,658 and \$1,069,355, respectively.

Construction in progress at June 30, 2022 represent costs for new robots and a building.

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, 2022 AND 2021**

**NOTE 4 - LONG-TERM DEBT**

Long-term debt consists of the following:

	2022	2021
\$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	\$ 5,700,000	\$ 6,390,000
\$25,000,000 Research and Development Revenue Bonds, Series 2022, due in monthly installments of \$51,061 to \$81,615, from April 1, 2024 through April 1, 2037, with an interest rate of 3.74%, secured by mortgage and security agreement	374,425	-
\$2,000,000 Note, due in monthly installments of \$10,557, from August 21, 2017 through June 21, 2027, with an interest rate of 4%, secured by mortgage and security agreement, refinanced in April 2022	-	1,802,422
\$1,800,000 Note, due in monthly installments of \$9,814, from April 28, 2022 through February 28, 2037, balloon payment due March 28, 2037, with an interest rate of 4.25%, secured by mortgage and security agreement	1,763,681	-
	7,838,106	8,192,422
Less unamortized debt issuance costs	426,344	40,303
	7,411,762	8,152,119
Less current maturities	757,358	745,596
	\$ 6,654,404	\$ 7,406,523

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 4 - LONG-TERM DEBT (Continued)**

Scheduled maturities on long-term debt are as follows:

<u>Year ending June 30,</u>	
2023	\$ 757,358
2024	891,289
2025	1,098,300
2026	858,183
2027	897,325
Thereafter	<u>3,335,651</u>
	<u>\$ 7,838,106</u>

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.

During 2022, Florida Development Finance Corporation (“FDFC”) issued a not-to-exceed \$25,000,000 Revenue Bond to provide financial assistance to IHMC to finance the construction of a new building. The note is payable to Smartbank Corporation (“Smartbank”) as lender, solely from the payments received from the underlying financing agreement. IHMC executed and delivered a promissory note to Smartbank, who is assigned all rights to receive payments from IHMC related to these agreements. FDFC has no obligation in any manner for repayment of the note. As of June 30, 2022, construction had not yet begun and total proceeds disbursed totaled \$375,000 for bond issuance costs. IHMC will make interest-only payments through April 2024, at which point in time the total outstanding principal and interest payments begin.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 5 - PAYCHECK PROTECTION PROGRAM**

On April 15, 2020, IHMC received loan proceeds in the amount of \$1,658,300 under the PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The PPP loan’s principal and accrued interest were forgivable to the extent that the proceeds were used for eligible purposes, subject to certain limitations, and that IHMC maintained payroll levels over a twenty-four-week period following the loan date. During 2020, IHMC incurred eligible forgivable expenses totaling \$1,025,629 and recognized a contribution in that amount. During 2021, IHMC incurred additional expenses totaling \$632,671 and recognized a contribution in that amount. In June 2021, IHMC received a forgiveness notice from the Small Business Administration.

**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, 2022 and 2021 are presented as follows:

	2022	2021
Educational Outreach Youth Programs	\$ 79,917	\$ 67,514
Research projects	-	58,714
Other	16,136	3,874
	\$ 96,053	\$ 130,102

**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 \$1,218,839 in 2022 and \$1,070,446 in 2021.

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.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

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 Chapter 280, Florida Statutes, Public Deposits Trust Fund. At June 30, 2022, IHMC had cash balances in excess of insured limits of approximately \$769,000.

*Lines of Credit:*

IHMC has two revolving, unsecured, lines of credit, each totaling \$2,000,000 with two financial institutions. Both lines of credit carry interest of 2.5% over the one-month LIBOR rate and expire on February 23, 2023, and March 10, 2023. IHMC had no amounts outstanding as of June 30, 2022 and 2021 under the lines of credit.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

*Lease Commitments:*

IHMC is renting office equipment and office space under operating leases expiring through September 2023. Future minimum lease payments under these leases are as follows:

<u>Year ending June 30,</u>	
2023	\$ 25,336
2024	22,356
2025	<u>6,832</u>
	<u>\$ 54,524</u>

Rental expense for operating leases for the years ended June 30, 2022 and 2021 was \$21,170 and \$23,940, respectively.

*Contingencies:*

The Defense Contract Audit Agency (“DCAA”) is the federal agency tasked with auditing grant compliance on behalf of the Office of Naval Research (“ONR”), which is IHMC’s cognizant agency. As noted in their audit reports for the fiscal years ended June 30, 2008 through 2013, and again in their audit report for the fiscal year ended June 30, 2020, DCAA had questioned a portion of indirect costs included in the indirect cost pool. As of June 30, 2021, ONR had issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2019. Subsequent to June 30, 2021, IHMC received final indirect cost rates for fiscal years ended June 30, 2020 and 2021. 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.

*COVID-19:*

IHMC is continually monitoring the potential impact of the COVID-19 pandemic and its effects on the financial statements. The extent to which the COVID-19 pandemic impacts IHMC going forward will depend on numerous evolving factors, which the organization cannot reliably predict. The financial statements do not contain any adjustments that might result from the outcome of this uncertainty.

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**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	\$ 2,725,325
Grants and contracts receivable	<u>4,980,341</u>
	<u>\$ 7,705,666</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 two lines of credit, each in the amount of \$2,000,000, 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, 2022**

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<b><u>Research and Development Cluster:</u></b>				
<b><u>Office of Naval Research</u></b>				
Human Fuel for Optimizing Cold Water Performance	12.300	N00014-18-1-2115	\$ 11,032	\$ -
High Speed Humanoid Behaviors for Urban Operations	12.300	N00014-19-1-2023	261,324	-
Michigan State	12.300	N00014-20-1-2005	151,241	-
Human Glymphatic Function in Extreme Environments	12.300	N00014-20-1-2463	412,640	372,161
Development of an Underwater Oculometric Assessment Tool	12.300	N00014-20-1-2340	178,476	3,430
Validation of an Underwater Oculometric Assessment Tool	12.300	N00014-20-1-4002	107,127	9,604
Evaluating the Benefits of Intranasal Oxytocin Administration on Human Performance and Metabolism Under Extreme Conditions	12.300	N00014-21-1-2201	835,714	65,424
Machine Learning Approach to Identifying Hypercapnia Through Breath Sounds in Mask Worn Breathing Systems	12.300	N00014-21-1-2667	471,396	-
<b>Total Office of Naval Research</b>			<u>2,428,950</u>	<u>450,619</u>
<b><u>Department of the Air Force,</u></b>				
<b><u>Air Force Research Laboratory</u></b>				
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	326,833	209,406
<b><u>National Science Foundation</u></b>				
Collaborative Research: RI: Small: Modeling and Learning Ethical Principles for Embedding into Group Decision Support Systems	47.070	2008011	111,673	-
<b><u>National Institutes of Health</u></b>				
<b>Passed through Cornell University</b>				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	184000-01	130,096	-
<b>Total Research &amp; Development Cluster</b>			2,997,552	660,025
<b><u>Department of Homeland Security</u></b>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	43,345	-
<b>Total Expenditures of Federal Awards</b>			<u>\$ 3,040,897</u>	<u>\$ 660,025</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, 2022, 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 10, 2022.

**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 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 10, 2022

**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 programs for the year ended June 30, 2022. IHMC’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal 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 programs for the year ended June 30, 2022.

### **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 10, 2022

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2022**

**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:

Basic and Applied Scientific Research	CFDA No. 12.300
Research and Technology Development	CFDA No. 12.910
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, 2022**  
**(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.