

Saltmarsh

Saltmarsh, Cleaveland & Gund

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2024

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2024

CONTENTS

| | PAGE |
|---|------|
| Audited Financial Statements: | |
| Independent Auditor's Report | 1 |
| Statement of Financial Position | 4 |
| Statement of Activities and Changes in Net Assets | 5 |
| Statement of Functional Expenses | 7 |
| Statement of Cash Flows | 8 |
| Notes to Financial Statements | 9 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards | 22 |
| Other Reports and Schedules: | |
| Independent Auditor's Report on the Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill | 25 |
| Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill | 26 |
| 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> | 27 |
| Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 29 |
| Schedule of Findings and Questioned Costs | 32 |

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 statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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.

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 26, 2024, 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 solely 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 IHMC’s 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 26, 2024

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

Current Assets:

| | |
|--|--------------|
| Cash | \$ 3,332,006 |
| Restricted cash held by trustee | 703,000 |
| Grants and contracts receivables | 3,484,148 |
| Prepaid expenses | 588,245 |
| I will have PDF's ready shortly and will let you know. | 8,107,399 |

Property and Equipment, net

54,319,259

Right-of-Use Asset, Operating

50,218

Other Assets:

| | |
|--------------------|-----------|
| Interest rate swap | 1,836,625 |
| Deposits | 36,135 |
| Total other assets | 1,872,760 |

Total Assets

\$ 64,349,636

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|---|--------------|
| Current maturities of long-term debt | \$ 1,607,385 |
| Current maturities of operating lease liabilities | 41,869 |
| Accounts payable | 1,839,518 |
| Accrued payroll and related liabilities | 441,180 |
| Accrued interest | 53,000 |
| Refundable advances | 329,435 |
| Total current liabilities | 4,312,387 |

Long-Term Liabilities:

| | |
|--|------------|
| Long-term debt, less current maturities and unamortized debt issuance costs | 30,615,840 |
| Operating lease liabilities, less current maturities | 11,179 |
| Total long-term liabilities | 30,627,019 |

Total liabilities

34,939,406

Net Assets:

| | |
|----------------------------|------------|
| Without donor restrictions | 29,327,077 |
| With donor restrictions | 83,153 |
| Total net assets | 29,410,230 |

Total Liabilities and Net Assets

\$ 64,349,636

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2024

Change in Net Assets Without Donor Restrictions:

Support, Revenue and Reclassifications:

| | |
|--|-----------------------|
| Research and development grants and contracts - | |
| Federal awards | \$ 17,626,129 |
| Other grants | 5,027,934 |
| Contracts | 7,200,412 |
| Legislative appropriation | 7,314,184 |
| Registration fees | 174,269 |
| Contributions | 258,791 |
| Other revenue | 132,384 |
| Net assets released from restrictions | <u>11,626</u> |
| Total support, revenue and reclassifications | <u>37,745,729</u> |

Expenses:

| | |
|--|--------------------------|
| Program services - | |
| Research and development grants and contracts | 26,117,554 |
| Other program services | <u>143,130</u> |
| Total program services | <u>26,260,684</u> |
| Supporting services - | |
| Fundraising services - | |
| Salaries and employee benefits | 334,388 |
| Other fundraising expenses | 3,011 |
| General and administrative | <u>4,896,173</u> |
| Total supporting services | <u>5,233,572</u> |
| Total expenses | <u>31,494,256</u> |
| Change in net assets without donor restrictions from operating activities | <u>6,251,473</u> |

Nonoperating Activities:

| | |
|---|----------------------|
| Insurance proceeds | 4,196 |
| Interest income | 294,505 |
| Gain on interest rate swap | <u>1,836,625</u> |
| Total nonoperating activities | <u>2,135,326</u> |
| Change in net assets without donor restrictions | <u>8,386,799</u> |

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024
(Continued)

| | |
|--|-----------------------------|
| Change in Net Assets With Donor Restrictions: | |
| Contributions | 13,179 |
| Net assets released from restrictions | <u>(11,626)</u> |
| Change in net assets with donor restrictions | <u>1,553</u> |
| Change in Net Assets | 8,388,352 |
| Net Assets, Beginning of Year | <u>21,021,878</u> |
| Net Assets, End of Year | <u><u>\$ 29,410,230</u></u> |

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

| | Program | | | General and Administrative | Fundraising | Total |
|---|---|---------------------------|---------------------------|-------------------------------|-------------------|----------------------|
| | Research and development grants and contract | Other program services | Total program services | | | |
| Salaries | \$ 9,486,167 | \$ - | \$ 9,486,167 | \$ 4,823,595 | \$ 273,013 | \$ 14,582,775 |
| Payroll taxes | 643,110 | - | 643,110 | 301,948 | 18,975 | 964,033 |
| Employee benefit programs | 1,988,369 | - | 1,988,369 | 907,543 | 42,400 | 2,938,312 |
| Subcontract and subrecipient | 5,664,439 | - | 5,664,439 | - | - | 5,664,439 |
| Travel | 460,718 | 9,000 | 469,718 | 95,587 | - | 565,305 |
| Meals and entertainment | 24,141 | 30,782 | 54,923 | 24,303 | 2,019 | 81,245 |
| Insurance | - | - | - | 919,036 | - | 919,036 |
| Legal and professional | 145,999 | 88,513 | 234,512 | 558,025 | - | 792,537 |
| Occupancy, including in-kind | - | - | - | 816,035 | - | 816,035 |
| Interest and amortization expense | - | - | - | 452,481 | - | 452,481 |
| Repairs and maintenance | - | - | - | 6,430 | - | 6,430 |
| Office expenses | 1,173,074 | - | 1,173,074 | 206,772 | 992 | 1,380,838 |
| Telephone | - | - | - | 112,791 | - | 112,791 |
| Lobbying costs | - | - | - | 226,517 | - | 226,517 |
| Licenses and fees | 142,751 | - | 142,751 | 117,528 | - | 260,279 |
| Memberships and continuing education | 16,675 | - | 16,675 | 84,651 | - | 101,326 |
| Employee morale and welfare | 1,302 | - | 1,302 | 48,460 | - | 49,762 |
| Other | 48,155 | 14,835 | 62,990 | 42,786 | - | 105,776 |
| Depreciation | - | - | - | 1,474,339 | - | 1,474,339 |
| Indirect applied overhead, payroll taxes and employee benefits | 6,322,654 | - | 6,322,654 | (6,322,654) | - | - |
| Total | \$ 26,117,554 | \$ 143,130 | \$ 26,260,684 | \$ 4,896,173 | \$ 337,399 | \$ 31,494,256 |

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

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2024

Cash Flows From Operating Activities:

| | |
|--|--------------|
| Change in net assets | \$ 8,388,352 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities - | |
| Depreciation | 1,474,339 |
| Amortization of debt issuance costs | 38,402 |
| Change in fair value of interest rate swap agreement | (1,836,625) |
| Changes in operating assets and liabilities - | |
| Grants and contracts receivables | 1,077,841 |
| Prepaid expenses | (456,300) |
| Right-of-use assets, operating | 109,477 |
| Deposits | 4,558 |
| Accounts payable | (2,989,479) |
| Accrued payroll and related liabilities | 165,186 |
| Accrued interest | (9,313) |
| Refundable advances | (236,961) |
| Operating lease liabilities | (108,137) |
| Net cash provided by operating activities | 5,621,340 |

Cash Flows From Investing Activities:

| | |
|-------------------------------------|--------------|
| Purchases of property and equipment | (25,058,380) |
|-------------------------------------|--------------|

Cash Flows From Financing Activities:

| | |
|---|------------|
| Principal payments of long-term debt | (155,658) |
| Proceeds from long-term debt | 1,978,740 |
| Principal payments of bond | (847,279) |
| Proceeds from bond issuance | 18,473,481 |
| Net cash provided by financing activities | 19,449,284 |

| | |
|-----------------------------|--------|
| Net Increase in Cash | 12,244 |
|-----------------------------|--------|

| | |
|----------------------------------|-----------|
| Cash at Beginning of Year | 4,022,762 |
|----------------------------------|-----------|

| | |
|----------------------------|--------------|
| Cash at End of Year | \$ 4,035,006 |
|----------------------------|--------------|

Displayed As:

| | |
|---------------------------------|--------------|
| Cash | \$ 3,332,006 |
| Restricted cash held by trustee | 703,000 |
| | \$ 4,035,006 |

Supplemental Disclosure of Cash Flow Information:

| | |
|---------------|--------------|
| Interest paid | \$ 1,065,525 |
|---------------|--------------|

Supplemental Disclosure of Noncash Investing and Financing Activities:

| | |
|---|-----------|
| Financing costs paid from long-term debt proceeds | \$ 21,260 |
|---|-----------|

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, 2024

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 and changes in net assets 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 non-recurring nature.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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.

Revenue Recognition:

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 and changes in net assets 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.

Grants and Contracts:

Revenue from grants and contracts, including federal awards and state financial assistance, 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, 2024, 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.

Registration Fees:

Revenue from registration fees is recognized as the related performance obligations are satisfied as transaction amounts expected to be collected. IHMC's performance obligations related to registration fees are satisfied upon occurrence of the related event.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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 statement of functional expenses and totaled \$38,402 for the year ended June 30, 2024.

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.

Advertising Costs:

Advertising costs are expensed when incurred.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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.

Fair Value of Financial Instruments:

Fair value for interest rate swap agreement is based on third-party pricing models or formulas using current assumptions and are disclosed in Notes 4 and 5.

Derivatives - IHMC accounts for derivatives and hedging instruments in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires IHMC to recognize all derivatives as either assets or liabilities on the statements of financial position at fair value. Gains and losses resulting from changes in fair value are recognized in changes in net assets without donor restrictions.

IHMC's use of derivative instruments is limited to an interest rate swap agreement used to modify the interest characteristics for a portion of its outstanding variable rate debt. In accordance with ASC 815, management has not designated these interest rate swaps as cash flow hedges.

Leases:

ASC 842, *Leases* ("ASC 842") requires a lessee to recognize a right-of-use asset and a lease liability for all leases with a term greater than 12 months on its balance sheet regardless of whether the lease is classified as financing or operating.

IHMC's lessee arrangements include operating leases for office space and equipment leases. Under these arrangements, IHMC records ROU assets and corresponding operating lease liabilities, each of which is based on the present value of the remaining lease payments discounted using the risk-free rate practical expedient allowable under ASC 842. ROU assets are reported as noncurrent assets and the related operating lease liabilities are reported in current and long-term liabilities on the statement of financial position. All leases are recorded on the statement of financial position except for leases with an initial term of less than 12 months for which IHMC elected the short-term lease recognition under ASC 842. Lease terms may contain renewal and extension options and early termination features. Lease expense is recognized on a straight-line basis over the lease term.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASC 326”). ASC 326 requires the measurement of all expected credit losses for financial assets held at the reporting date to be based on historical experience, current conditions, and reasonable and supportable forecasts. This current expected credit loss (“CECL”) model replaces the existing incurred loss model and is applicable to the measurement of credit losses on IHMC’s accounts receivable. Subsequent to the issuance of this update, the FASB issued several ASUs that clarified the guidance. ASC 326 is effective for fiscal years beginning after December 15, 2022. IHMC adopted the standard on July 1, 2023, and it did not have a material impact on IHMC’s financial statements.

Subsequent Events:

Management has evaluated subsequent events through November 26, 2024, 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:

| | |
|----------------|--------------------------|
| Debt service - | |
| Note principal | \$ 650,000 |
| Note interest | <u>53,000</u> |
| | <u><u>\$ 703,000</u></u> |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

| | |
|--|----------------------|
| Land | \$ 3,316,994 |
| Buildings | 51,466,012 |
| Computers and software | 1,435,089 |
| Machinery and equipment | 4,556,739 |
| Robotics | 1,014,362 |
| Furniture and fixtures | 1,468,129 |
| Vehicle | 54,197 |
| | <hr/> |
| | 63,311,522 |
| Less accumulated depreciation and amortization | 10,998,209 |
| | <hr/> |
| | 52,313,313 |
| Art collection | 5,950 |
| Idle equipment, net | 164,091 |
| Construction in progress | 1,835,905 |
| | <hr/> |
| | <u>\$ 54,319,259</u> |

Depreciation and amortization expense for the year ended June 30, 2024 was \$1,474,339.

Construction in progress at June 30, 2024, represents costs for new robots.

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 the final release of the item has been received by IHMC.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

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

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following:

| | |
|--|-----------------------------|
| \$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 | \$ 4,240,000 |
| \$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 5.69%, secured by mortgage and security agreement | 24,897,721 |
| \$2,000,000 Note, due in monthly installments of \$90,102, from March 29, 2024 through April 1, 2027, with an interest rate of 7.50%, secured by mortgage and security agreement | 2,000,000 |
| \$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 | <u>1,458,830</u> |
| | 32,596,551 |
| Less unamortized debt issuance costs | <u>373,326</u> |
| | 32,223,225 |
| Less current maturities | <u>1,607,385</u> |
| Long-term debt, less current maturities | <u><u>\$ 30,615,840</u></u> |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4 - LONG-TERM DEBT (Continued)

Scheduled maturities on long-term debt are as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|-----------------------------|
| 2025 | \$ 1,607,385 |
| 2026 | 2,481,800 |
| 2027 | 2,439,020 |
| 2028 | 1,635,776 |
| 2029 | 649,465 |
| Thereafter | <u>23,783,105</u> |
| | <u><u>\$ 32,596,551</u></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. Proceeds disbursed totaled \$25,000,000. IHMC made interest-only payments through April 2024, at which point in time the total outstanding principal and interest payments began. As of June 30, 2024, total amount outstanding was \$24,897,721.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4 - LONG-TERM DEBT (Continued)

Interest Rate Swap Agreement:

On April 1, 2022, IHMC entered into an interest rate swap agreement to reduce the impact in interest rates on their floating rate long-term debt. The agreement went into effect in 2024 when payments commenced, and interest began accruing on the long-term debt. At June 30, 2024, IHMC had an outstanding interest rate swap agreement with a commercial bank having a notional amount of \$1,836,625 at 3.66% fixed rate interest and a maturity date of April 1, 2037. IHMC has not designated its interest rate swap as a cash flow hedge under ASC 815. Changes in the fair value of the interest rate swap agreement increased by \$1,836,625 for the year ended June 30, 2024, and is presented as a nonoperating activity in the statement of activities and changes in net assets. IHMC is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, IHMC does not anticipate nonperformance by the counterparties.

NOTE 5 - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification 820, *Fair Value Measurements* (“ASC 820”), defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of input may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used for the asset measured at fair value:

Interest rate swap agreements are classified as Level 2 as the values are based on inputs that are derived principally from or corroborated by observable market data.

The following table presents the interest rate swap agreement carried at fair value:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------|----------------|---------------------|----------------|---------------------|
| June 30, 2024 | <u>\$ -</u> | <u>\$ 1,836,625</u> | <u>\$ -</u> | <u>\$ 1,836,625</u> |

NOTE 6 - LEASES

IHMC leases office space and equipment under operating leases expiring through September 2026. As of June 30, 2024, the ROU assets related to operating leases totaled \$50,218 and the related lease liabilities totaled \$53,048. Rent expense, including operating leases, totaled \$149,630 for the year ended June 30, 2024 and is included in occupancy expenses in the accompanying statement of functional expenses. The following table presents supplemental information pertaining to the operating leases as of and for the year ended June 30, 2024:

| | |
|--|------------|
| Operating cash flows from operating leases | \$ 108,137 |
| Weighted-average remaining lease term for operating leases | 1.07 |
| Weighted-average discount rate for operating leases | 3.47% |

The following table presents the maturities of IHMC's operating lease liabilities and the present value discount as of June 30, 2024:

| <u>Year ending June 30,</u> | |
|-------------------------------|------------------|
| 2025 | \$ 41,869 |
| 2026 | 9,791 |
| 2027 | <u>2,336</u> |
| Total undiscounted cash flows | 53,996 |
| Less: present value discount | <u>(948)</u> |
| Total lease liabilities | <u>\$ 53,048</u> |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7 - 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, 2024 are presented as follows:

| | | |
|-------------------------------------|----|--------|
| Educational Outreach Youth Programs | \$ | 83,153 |
|-------------------------------------|----|--------|

NOTE 8 - 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 employees’ compensation on a bi-weekly basis. Contributions to the plan amounted to \$1,404,980 in 2024.

In addition to the defined contribution plan, IHMC also established an elective deferral plan with TIAA CREF. To participate, an eligible employee must enter into a written salary reduction agreement with IHMC. Under the salary reduction agreement, the employee’s salary (paid after the agreement is signed) is reduced and the amount of the reduction is applied as premiums to the funding vehicles available under this plan.

IHMC has established an elective deferral plan that operates under Section 457(b) of the Internal Revenue Code. To participate, an eligible employee must enter into a written salary reduction agreement with IHMC. Under the salary reduction agreement, the employee’s salary (paid after the agreement is signed) is reduced and the amount of the reduction is applied as premiums to the funding vehicles available under this plan’s provider, Edward Jones.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 - 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 10 - 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, 2024, IHMC had cash balances in excess of insured limits of \$1,876,469.

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 30-Day Average SOFR rate and expire on May 22, 2025, and April 10, 2025. IHMC had no amounts outstanding as of June 30, 2024 under the lines of credit.

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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10 - 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 11 - LIQUIDITY

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

| | |
|---------------------------------|---------------------|
| Cash | \$ 3,332,006 |
| Grants and contracts receivable | <u>3,484,148</u> |
| | <u>\$ 6,816,154</u> |

As part of IHMC's liquidity management, there is 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, 2024**

| Federal Grantor, Pass-through Grantor, Program or Cluster Title | Federal ALN | Pass-through Agency's Identifying Number | Expenditures | Transfer to Subrecipients |
|--|----------------|---|--------------|------------------------------|
| <u>Research and Development Cluster</u> | | | | |
| <u>United States Department of Defense:</u> | | | | |
| Direct from - | | | | |
| Naval Research Laboratory | | | | |
| Basic and Applied Scientific Research | 12.300 | N0017323C2003 | \$ 715,443 | \$ 78,944 |
| Office of Naval Research | | | | |
| Basic and Applied Scientific Research | 12.300 | N00014-19-C-2009 | 549,989 | - |
| Basic and Applied Scientific Research | 12.300 | N00014-20-1-2463 | 42,407 | 18,212 |
| Basic and Applied Scientific Research | 12.300 | N00014-21-1-2201 | 1,455,067 | 56,823 |
| Basic and Applied Scientific Research | 12.300 | N00014-22-1-2593 | 1,960,338 | 903,259 |
| Basic and Applied Scientific Research | 12.300 | N00014-23-1-2886 | 320,631 | - |
| Passed through Michigan State University | | | | |
| Basic and Applied Scientific Research | 12.300 | RC110419IHMC | 61,265 | - |
| Total Assistance Listing No. 12.300 | | | 5,105,140 | 1,057,238 |
| Direct from - | | | | |
| Army Medical Research | | | | |
| Military Medical Research and Development | 12.420 | HT942523C0002 | 1,085,373 | - |
| United States Special Operations Command Passed through HVMN, Inc. | | | | |
| Military Medical Research and Development | 12.420 | HVMN-IHMC-2019-001 | 179,020 | - |
| Total Assistance Listing No. 12.420 | | | 1,264,393 | - |
| Army Research Laboratory | | | | |
| Basic Scientific Research | 12.431 | W911NF-19-2-0262 | 754,929 | - |
| Basic Scientific Research | 12.431 | W911NF2120241 | 120,867 | - |
| Basic Scientific Research | 12.431 | W911NF22-2-0201 | 379,521 | - |
| Basic Scientific Research | 12.431 | W911NF-23-2-0221 | 107,710 | - |
| Defense Advanced Research Projects Agency (DARPA) Passed through Smart Information Flow Technologies (SIFT) | | | | |
| Basic Scientific Research | 12.431 | RADII-IHMC-01 | 403,812 | 218,744 |
| Intelligence Advanced Research Projects Activity Passed through SRI International | | | | |
| Basic Scientific Research | 12.431 | 92056 | 660,319 | - |
| United States Military Academy Passed through University of West Florida | | | | |
| Basic Scientific Research | 12.431 | W911NF2320108 | 21,506 | - |
| Total Assistance Listing No. 12.431 | | | 2,448,664 | 218,744 |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2024
(Continued)

| Federal Grantor, Pass-through Grantor, Program or Cluster Title | Federal ALN | Pass-through Agency's Identifying Number | Expenditures | Transfer to Subrecipients |
|--|----------------|---|-------------------|------------------------------|
| <u>Research and Development Cluster (Continued)</u> | | | | |
| <u>United States Department of Defense (Continued):</u> | | | | |
| Direct from - | | | | |
| Air Force Research Laboratory | | | | |
| Air Force Defense Research Sciences Program | 12.800 | FA8750-21-C-1000 | 638,104 | - |
| Air Force Defense Research Sciences Program | 12.800 | FA8650-22-2-5410 | 4,609,395 | 2,583,833 |
| Air Force Defense Research Sciences Program | 12.800 | FA9550-23-1-0661 | 1,421,248 | 376,440 |
| Total Assistance Listing No. 12.800 | | | <u>6,668,747</u> | <u>2,960,273</u> |
| Air Force Research Laboratory | | | | |
| Passed through Infoscitex Corporation | | | | |
| CyberSecurity Core Curriculum | 12.905 | FPH14-S029 | 71,852 | - |
| Defense Advanced Research Projects Agency (DARPA) | | | | |
| Research and Technology Development | 12.910 | HR001120C0037 | 344,393 | 122,504 |
| Air Force Research Laboratory | | | | |
| Intergovernmental Personnel Act (IPA) | | | | |
| | 12.RD | N/A | 216,358 | - |
| Air Force Research Laboratory | | | | |
| Passed through Infoscitex Corporation | | | | |
| DCS/Infoscitex Workshop | 12.RD | 250117 | 64,348 | - |
| Cognitive and Physical Performance in Operational Environments (CaPPOE) | 12.RD | 250785 | 16,271 | - |
| Passed through Ball Aerospace | | | | |
| Research for Enhancing Airman and Cognitive Helath (REACH) | 12.RD | 24S0039C | 119,108 | - |
| Passed through DCS Corporation | | | | |
| Cognitive and Physical Performance in Operational Environments (CaPPOE) | 12.RD | FPH14-S029 | 13,738 | - |
| Passed through Boardwalk Robotics, Inc. | | | | |
| SupplyBot: Extreme Mobility Resupply Robot Phase II | 12.RD | W56HZV-21-C-0049 | 81,587 | - |
| Total Assistance Listing No. 12.RD | | | <u>511,410</u> | <u>-</u> |
| Total Department of Defense | | | <u>16,414,599</u> | <u>4,358,759</u> |
| <u>National Aeronautics and Space Administration:</u> | | | | |
| Mission Support | 43.009 | 80NSSC20M0197 | 198,123 | - |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2024
(Continued)

| Federal Grantor, Pass-through Grantor, Program or Cluster Title | Federal ALN | Pass-through Agency's Identifying Number | Expenditures | Transfer to Subrecipients |
|--|----------------|---|----------------------|------------------------------|
| <u>Research and Development Cluster (Continued)</u> | | | | |
| <u>National Science Foundation:</u> | | | | |
| Computer and Information Science and Engineering | 47.070 | 2008011 | 19,312 | - |
| Computer and Information Science and Engineering | 47.070 | 2200112 | 719,098 | 434,243 |
| <u>Passed through University of Florida</u> | | | | |
| Computer and Information Science and Engineering | 47.070 | SUB00003260 | 11,728 | - |
| Total Assistance Listing No. 47.070 | | | 750,138 | 434,243 |
| <u>Passed through Clemson University</u> | | | | |
| Engineering | 47.041 | 2374-206-2015104 | 93,859 | - |
| Total National Science Foundation | | | 843,997 | 434,243 |
| <u>United States Department of Health and Human Services:</u> | | | | |
| Direct from - | | | | |
| National Institute of Health (NIH) | | | | |
| Passed through University of Massachusetts Amherst | | | | |
| Health Careers Opportunity Program | 93.822 | 23-016677 AB 00 | 169,410 | - |
| Total Expenditures of Federal Awards | | | \$ 17,626,129 | \$ 4,793,002 |

NOTE 1: This schedule is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

NOTE 2: IHMC did not use the de minimus cost rate.

OTHER REPORTS AND SCHEDULES

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF
RECEIPTS AND EXPENDITURES OF FUNDS RELATED TO THE
DEEPWATER HORIZON OIL SPILL**

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

We have audited the financial statements of the Florida Institute for Human and Machine Cognition, Inc. as of and for the year ended June 30, 2024, and have issued our report thereon dated November 26, 2024.

The Schedule of Receipts and Expenditures of Funds related to the Deepwater Horizon Oil Spill on page 26 is presented for the purpose of additional analysis as required by the Rules of the Auditor General Chapter 10.557(3)(m), 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 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.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
November 26, 2024

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF RECEIPTS AND EXPENDITURES OF
FUNDS RELATED TO THE DEEPWATER HORIZON OIL SPILL
YEAR ENDED JUNE 30, 2024**

| Source | Amount Received in the 2023-24 Fiscal Year | Amount Expended in the 2023-24 Fiscal Year |
|---------------------------------|--|--|
| Triumph Gulf Coast, Inc. | | |
| Agreement No. 233 | <u>\$ 5,027,934</u> | <u>\$ 5,027,934</u> |

NOTE 1: This schedule is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

NOTE 2: This schedule is required by Chapter 10.557(3)(m), *Rules of the Auditor General*, for funds related to the Deepwater Horizon Oil Spill that are not considered federal awards or state financial assistance. IHMC did not receive any Deepwater Horizon Oil spill funds that are considered federal awards or state financial assistance.

**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, 2024, 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 26, 2024.

Report on 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.

Report on 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 26, 2024

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE
MAJOR FEDERAL 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

Opinion on the 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, 2024. IHMC’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

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, 2024.

Basis for Opinion on the Major Federal Program

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* (GAAS), 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”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibility for the Audit of Compliance section of our report.

We are required to be independent of IHMC and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of IHMC’s compliance with the compliance requirements referred to above.

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to IHMC's federal program.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on IHMC's compliance based on our audit. 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 GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about IHMC's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 IHMC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of IHMC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 IHMC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibility for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 26, 2024

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024

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 program are reported in the Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal 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 programs tested as a major program included the following:

Federal Program

Research and Development Cluster:

| | |
|---|-------------------------------|
| Basic and Applied Scientific Research | Assistance Listing No. 12.300 |
| Military Medical Research and Development | Assistance Listing No. 12.420 |
| Basic Scientific Research | Assistance Listing No. 12.431 |
| Air Force Defense Research Sciences Program | Assistance Listing No. 12.800 |
| CyberSecurity Core Curriculum | Assistance Listing No. 12.905 |
| Research and Technology Development | Assistance Listing No. 12.910 |
| Other Federal Awards | Assistance Listing No. 12.RD |

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024
(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 PROGRAM

There were no findings and questioned costs related to the major federal award program which are required to be reported in accordance with the Uniform Guidance.