

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF
TRUSTEES OF THE UNIVERSITY OF ALABAMA)**

**FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION,
AND SINGLE AUDIT REPORT**

DECEMBER 30, 2022 AND DECEMBER 31, 2021

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Southern Research Institute

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of Southern Research Institute (the Organization), a component unit of the Board of Trustees of the University of Alabama, as of and for the years ended December 30, 2022 and December 31, 2021, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of Southern Research Institute as of December 30, 2022 and December 31, 2021, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization, 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 opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Southern Research Institute and do not purport to, and do not, present fairly the financial position of the Board of Trustees of the University of Alabama, as of December 30, 2022 and December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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 auditors' report that includes our opinions. 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 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 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 GAAS 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 The Organization'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 the Organization'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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, and other postemployment benefit information on pages 52 through 53 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southern Research Institute's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 May 4, 2023, on our consideration of the Organization'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 the effectiveness of the Organization'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 the Organization's internal control over financial reporting and compliance.

Warren Averett, LLC

Birmingham, Alabama
May 4, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

**SOUTHERN RESEARCH INSTITUTE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Southern Research Institute (the Organization) is pleased to present its financial statements as of December 30, 2022 and December 31, 2021, and for the fiscal years then ended. The objective of management's discussion and analysis is to help readers of the Organization's financial statements better understand the financial position at December 30, 2022 and December 31, 2021, and the operating activities for the years then ended.

The Organization operates on a 52/53-week fiscal year, with the fiscal year-end on the Friday nearest December 31. The accompanying financial statements cover the period from January 1, 2022 through December 30, 2022 (2022) and January 2, 2021 through December 31, 2021 (2021).

The Organization utilizes two different funds to account for its activities: an enterprise fund, which reports information about the general operations of the Organization, and a fiduciary fund, which reports information about the OPEB Trust Fund (the Plan). For information regarding the fiduciary fund of the Organization, see the statements of fiduciary net position – OPEB trust fund and the statements of changes in fiduciary net position – OPEB trust fund in the financial statements. The OPEB trust fund does not issue separate annual audited financial statements.

The following discussion should be read in conjunction with the financial statements and notes to the financial statements.

The enterprise fund financial statements presented were prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. The financial statements presented focus on the financial condition, the changes in net position and cash flows of the Organization.

There are three financial statements presented: the statements of net position; the statements of revenues, expenses and changes in net position – enterprise fund; and the statements of cash flows. These statements present financial information in a form similar to that used by private-sector corporations. The Organization's net position (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) is an indicator of the Organization's current financial condition, while the changes in net position and the cash flow statements are indicators of whether the Organization's financial condition has improved or worsened during the year. This discussion and analysis of the Organization's financial statements provides an overview of its activities for the year.

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STATEMENTS OF NET POSITION

The statements of net position present the financial position of the Organization at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities and deferred inflows of resources recorded on the accrual basis of accounting. As stated above, total net position is one indicator of the financial condition of the Organization at year-end.

A summarized comparison of the Organization's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 30, 2022 and December 31, 2021, is as follows:

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>% Change</u>
Current assets	\$ 186,613,275	\$ 89,594,737	\$ 97,018,538	108%
Capital assets	22,235,369	32,447,204	(10,211,835)	(31%)
Other assets	1,756,251	2,053,566	(297,315)	(14%)
Deferred outflows	<u>574,750</u>	<u>174,529</u>	<u>400,221</u>	<u>229%</u>
Total assets and deferred outflows	<u>\$ 211,179,645</u>	<u>\$ 124,270,036</u>	<u>\$ 86,909,609</u>	<u>70%</u>
Current liabilities	\$ 20,141,730	\$ 29,634,462	\$ (9,492,732)	(32%)
Non-current liabilities	8,778,514	585,318	8,193,196	1400%
Deferred inflows	<u>1,824,877</u>	<u>1,960,536</u>	<u>(135,659)</u>	<u>(7%)</u>
Total liabilities and deferred inflows	<u>\$ 30,745,121</u>	<u>\$ 32,180,316</u>	<u>\$ (1,435,195)</u>	<u>(4%)</u>
Net assets:				
Net investment in capital assets	\$ 12,658,468	\$ 18,818,321	\$ (6,159,853)	(33%)
Restricted:				
Expendable	10,076,662	12,481,131	(2,404,469)	(19%)
Unrestricted	<u>157,699,394</u>	<u>60,790,268</u>	<u>96,909,126</u>	<u>159%</u>
Total net position	<u>\$ 180,434,524</u>	<u>\$ 92,089,720</u>	<u>\$ 88,344,804</u>	<u>96%</u>

Net position increased from \$92.1 million at December 31, 2021, to \$180.4 million at December 30, 2022, an increase of \$88.3 million. This increase reflects the excess of income over expenses for the year ended December 30, 2022.

Total assets and deferred outflows increased by approximately 70% during 2022, with an 108% increase in current assets, a 31% decrease in capital assets, a 14% decrease in other assets, and an 229% increase in deferred outflows. The change in current assets comprised:

- Investments (restricted and unrestricted) increased from \$64.5 million at December 31, 2021, to \$170.2 million at December 30, 2022, due to interest and dividend income reinvested of \$1.3 million, market losses of \$4.2 million and net transfers from operations of \$104.7 million.

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STATEMENTS OF NET POSITION – CONTINUED

- Cash and cash equivalents increased from \$2.2 million at the beginning of the year to \$3.4 million at year-end due to negative cash flows from operations of \$1.0 million, positive cash flows from noncapital financing activities of \$1.8 million, positive cash flows from capital and related financing activities of \$105.1 million and negative cash flows used in investing activities of \$104.7 million.
- Accounts receivable decreased by 46%, with the 2022 year-end balance of \$11.1 million representing 78.1 days of sales outstanding for contract revenues compared to 95 days of sales outstanding for contract revenues at December 31, 2021. The decrease comprises a 16.7% decrease in billed accounts receivable and an 80.9% decrease in unbilled accounts receivable, with the overall decrease driven by the timing of milestone payments under firm-fixed-price contracts and the sale of Engineering.
- Other receivables increased 63% from the January 1, 2022, balance of \$0.5 million, resulting principally from the sale of the Engineering division.
- Prepayments and other current assets were consistent for years ending December 30, 2022 and December 31, 2021 with a balance of approximately \$0.8 million.
- Deferred inflows of resources and deferred outflows of resources resulted from differences between actual and expected experience and earnings on investments related to OPEB.

The Organization invested \$6.8 million in capital assets in 2022. After disposals and depreciation/amortization expense, net capital assets decreased from the 2021 year-end balance of \$32.4 million to \$22.2 million at 2022 year-end.

Current liabilities decreased by 32% during the year, and noncurrent liabilities increased by 1,400%, from beginning balances of \$29.6 million and \$0.6 million, respectively.

The 32% net decrease in total current liabilities comprised an 107% increase in accounts payable to a year-end balance of \$4.6 million, a 26% decrease in accrued liabilities to a year-end balance of \$3.4 million and a 1% decrease in unearned contract revenue from the beginning balance of \$9.7 million. The significant increase in accounts payable is a result of the start of the master campus plan with \$1.5 million of costs accrued for the year ended December 30, 2022. Also, \$0.7 million of the increase is owed to Kratos at year end as a result of the sale of the engineering division. The decrease in accrued liabilities is a direct result of the sale of the engineering division which caused a significant decrease in accrued payroll. Current maturities of long-term debt decreased by 81% to a year-end balance of \$2.4 million due to current maturities of long-term debt and payments of \$19.2 million.

Noncurrent liabilities increased by \$8.2 million due to the refinancing of long-term debt.

Restricted – expendable net position decreased by \$2.4 million due to a decrease in restricted cash and investments of \$1.8 million, a decrease in net OPEB assets of \$0.3 million, an increase in deferred outflows – OPEB of \$0.4 million, a decrease in deferred inflows – OPEB of \$0.1 million and an increase in restricted funds prepayments of \$0.7 million.

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STATEMENTS OF NET POSITION – CONTINUED

A summarized comparison of the Organization's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at December 31, 2021 and January 1, 2021, is as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
Current assets	\$ 89,594,737	\$ 75,889,570	\$ 13,705,167	18%
Capital assets	32,447,204	48,002,703	(15,555,499)	(32%)
Other assets	2,053,566	1,565,283	488,283	31%
Deferred outflows	<u>174,529</u>	<u>280,742</u>	<u>(106,213)</u>	<u>(38%)</u>
 Total assets	 <u>\$ 124,270,036</u>	 <u>\$ 125,738,298</u>	 <u>\$ (1,468,262)</u>	 <u>(1%)</u>
 Current liabilities	 \$ 29,634,462	 \$ 28,088,152	 \$ 1,546,310	 6%
Non-current liabilities	585,318	13,634,937	(13,049,619)	(96%)
Deferred inflows	<u>1,960,536</u>	<u>1,670,887</u>	<u>289,649</u>	<u>17%</u>
 Total liabilities	 <u>\$ 32,180,316</u>	 <u>\$ 43,393,976</u>	 <u>\$ (11,213,660)</u>	 <u>(26%)</u>
 Net assets:				
Net investment in capital assets	\$ 18,818,321	\$ 33,108,475	\$ (14,290,154)	(43%)
Restricted:				
Expendable	12,481,131	12,401,179	79,952	1%
Unrestricted	<u>60,790,268</u>	<u>36,834,668</u>	<u>23,955,600</u>	<u>65%</u>
	 <u>\$ 92,089,720</u>	 <u>\$ 82,344,322</u>	 <u>\$ 9,745,398</u>	 <u>12%</u>

Net position increased from \$82.3 million at January 1, 2021, to \$92.1 million at December 31, 2021, an increase of \$9.7 million. This increase reflects the excess of income over expenses for the year ended December 31, 2021.

Total assets and deferred outflows increased by approximately 1% during 2021, with a 18% increase in current assets, a 32% decrease in capital assets, a 31% increase in other assets and a 38% decrease in deferred outflows. The change in current assets comprised:

- Investments (restricted and unrestricted) increased from \$38.5 million at January 1, 2021, to \$64.5 million at December 31, 2021, due to interest and dividend income reinvested of \$0.3 million, market gains of \$1.2 million and net transfers from operations of \$24.5 million.
- Cash and cash equivalents increased from \$15.8 million at the beginning of the year to \$2.2 million at year-end due to positive cash flows from operations of \$5.8 million, negative cash flows from noncapital financing activities of \$7.6 million, capital and related financing activities positive cash flows of \$12.5 million and cash flows used in investing activities of \$24.4 million.

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STATEMENTS OF NET POSITION – CONTINUED

- Accounts receivable increased 20%, with the 2021 year-end balance of \$20.6 million representing 95 days of sales outstanding for contract revenues compared to 78 days of sales outstanding for contract revenues at January 1, 2021. The increase comprises a 24% increase in billed accounts receivable and an 8% increase in unbilled accounts receivable, with the overall increase driven by the timing of milestone payments under firm-fixed-price contracts.
- Other receivables decreased 11% from the January 1, 2021, balance of \$0.6 million, resulting principally from a decline in receivables from intellectual property income.
- Prepayments and other current assets decreased from \$2.7 million to \$0.8 million, primarily due to extending the Organization's insurance program expiration by one month and renewing it on January 1, 2022. Prepaid expenses as of January 1, 2021, included 11 months of prepaid insurance and a vendor prepayment of \$0.7 million.
- Deferred inflows of resources and deferred outflows of resources resulted from differences between actual and expected experience and earnings on investments related to OPEB.

The Organization invested \$3.2 million in capital assets in 2021. After disposals and depreciation/amortization expense, net capital assets decreased from the 2020 year-end balance of \$48.0 million to \$32.4 million at 2021 year-end.

Current liabilities increased by 6% during the year, and noncurrent liabilities decreased by 96%, from beginning balances of \$28.1 million and \$13.6 million, respectively.

The 6% net increase in total current liabilities comprised a 42% decrease in accounts payable to a year-end balance of \$2.2 million, a 19% decrease in accrued liabilities to a year-end balance of \$4.7 million a 2% increase in unearned contract revenue from the beginning balance of \$9.5 million, consistent with increasing commercial sales, which typically have upfront payments. Current maturities of long-term debt increased by 45% to a year-end balance of \$13.0 million due to current maturities of long-term debt of \$13.0 million and debt payments of \$9.0 million.

Noncurrent liabilities decreased by \$13 million due to current maturities of debt.

Restricted – expendable net position decreased by \$80,000 due to an increase in restricted cash and investments of \$1.1 million, an increase in net OPEB assets of \$0.5 million, a decrease in deferred outflows – OPEB of \$0.1 million, an increase in deferred inflows – OPEB of \$0.3 million and an increase in restricted funds prepayments of \$1.1 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present, on an accrual basis, the revenues earned and expenses incurred during the fiscal year. Activities are classified as either operating or nonoperating, depending on whether activities are an integral part of the Organization's operations (operating) or not (nonoperating). The difference between revenues and expenses (change in net position) increases or decreases the net position balance presented in the statements of net position from one year to the next.

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – CONTINUED

Operating revenues consist of revenues from contract research and intellectual property revenues, net of direct expenses. Operating expenses are those expenses necessary to conduct contract research, to generate and protect the Organization's intellectual property, and to generate intellectual property income. Comparative statements of revenues, expenses and changes in net position for 2022 and 2021 are as follows:

	<u>Year Ended December 30, 2022</u>	<u>Year Ended December 31, 2021</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues	\$ 52,947,171	\$ 80,858,861	\$ (27,911,690)	(35%)
Operating Expenses	56,723,500	76,724,147	(20,000,647)	(26%)
Operating Income (Loss)	(3,776,329)	4,134,714	(7,911,043)	(191%)
Nonoperating Revenues (Expenses)	(3,020,649)	5,610,684	(8,631,333)	(154%)
Capital Contributions and Special Items	95,141,782	-	95,141,782	-
CHANGE IN NET POSITION	88,344,804	9,745,398	78,599,406	807%
Net Assets at Beginning of Year	92,089,720	82,344,322	9,745,398	12%
Net Assets at End of Year	<u>\$ 180,434,524</u>	<u>\$ 92,089,720</u>	<u>\$ 88,344,804</u>	96%

Operating revenues in 2022 were 35% lower than the prior year, with revenues from sales to the U.S. Government generating 42% of the total in 2022 and 70% in 2021. Net intellectual property (IP) income decreased from 2021 to 2022 by 44% due to the net effect of a declining royalty stream for a product approaching its end of patent life. Declines in revenues and expenses are directly related to the sale of the Organization's Engineering division on May 23, 2022.

There was a 29% decline in salaries, wages and employee benefits which was the net result of merit and market increases, a decrease in the weighted average FTEs, increased benefit costs and an increase in the average base salary per FTE. Year-end employee headcounts (full-time equivalents, FTE) for the Organization for 2022 and 2021 were 213 and 354, respectively. Average FTE headcounts for 2022 and 2021 were 259 and 384, respectively. Contract revenue per average FTE was approximately \$200,000 for 2022 and \$206,000 for 2021.

There was a 21% decline in expenditures for supplies and services from 2021 to 2022 which comprises a 31.8% decrease in directly related project expenditures and a 4.4% decrease in non-labor overhead and general and administrative expenses.

There was a decrease in interest expense in 2022, amortization of long-term debt, and \$3.0 million of long-term debt payments directly related to the sale of the engineering division.

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – CONTINUED

The decrease in investment income in 2022 comprises unrealized losses on investments in 2022 of \$4.2 million versus unrealized gains on investments of \$1.2 million in 2021. Dividend and interest income was \$1.3 million in 2022 and \$0.3 million in 2021.

Capital contributions and special items comprises two transactions occurring during the year ended December 30, 2022. The Organization sold an operating division in the current year and as a result, realized a gain of \$50.1 million. In April of the current year, the Organization received a \$45 million appropriation from the State of Alabama Education Trust Fund as a result of the passage of House Bill 138.

Comparative statements of revenues, expenses and changes in net position for 2021 and 2020 are as follows:

	Year Ended December 31, 2021	Year Ended January 1, 2021	Change	% Change
Operating Revenues	\$ 80,858,861	\$ 82,150,401	\$ (1,291,540)	(2%)
Operating Expenses	76,724,147	80,137,417	(3,413,270)	(4%)
Operating Income (Loss)	4,134,714	2,012,984	2,121,730	105%
Nonoperating Revenues (Expenses)	5,610,684	10,058,779	(4,448,095)	(44%)
CHANGE IN NET POSITION	9,745,398	12,071,763	(2,326,365)	(19%)
Net Assets at Beginning of Year	82,344,322	70,272,559	12,071,763	17%
Net Assets at End of Year	\$ 92,089,720	\$ 82,344,322	\$ 9,745,398	12%

Contract revenues in 2021 were 2% lower than the prior year, with revenues from sales to the U.S. Government generating 70% of the total in 2021 and 75% in 2020. Net intellectual property income increased from 2020 to 2021 by 13% due to the net effect of a declining royalty stream for a product approaching its end of patent life and a \$0.5 million IP milestone earned on a product in development by the licensee.

The 4% decline in salaries, wages and employee benefits was the net result of merit and market increases, a decrease in the weighted average FTEs, increased benefit costs and an increase in the average base salary per FTE. Year-end employee headcounts (full-time equivalents, FTE) for the Organization for 2021 and 2010 were 354 and 406, respectively. Average FTE headcounts for 2021 and 2020 were 384 and 418, respectively. Contract revenue per average FTE was approximately

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – CONTINUED

\$207,000 for 2021 and \$193,000 for 2020.

The 4% decline in expenditures for supplies and services from 2020 to 2021 comprises an 11% decrease in directly related project expenditures and a 9% increase in non-labor overhead and general and administrative expenses.

The decrease in interest expense in 2021 reflects the payoff of \$7.7 million of debt entered into in 2020 and amortization of long-term debt.

The gain on disposal of fixed assets for 2021 of \$4.3 million comprises a gain primarily related to the disposal of property in Frederick, MD.

The increase in investment income in 2021 comprises unrealized gains on investments in 2021 of \$1.2 million versus unrealized gains on investments of \$0.7 million in 2020. Dividend and interest income was \$0.3 million in 2021 and \$0.2 million in 2020.

STATEMENTS OF CASH FLOWS

The statements of cash flows present detailed information about the cash activity of the Organization by reporting the sources and uses of cash. The statements of cash flows include cash flows from four sources: operating activities, capital and related financing activities, noncapital financing activities and investing activities. Cash flows from operating activities reflect the cash generated from, or used in, the Organization's operations. Cash flows from financing activities include cash provided by the issuance of debt and cash used to extinguish such debt. Additionally, financing activities include the acquisition and disposal of capital assets. Finally, cash flows from investing activities include cash used to acquire debt and equity securities and to purchase intangible assets. Cash provided by debt and equity securities, such as interest and dividend income, and from the sale of such securities and other investments, is also reported as net cash provided by or used in investing activities.

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 30, 2022 AND DECEMBER 31, 2021

STATEMENTS OF CASH FLOWS – CONTINUED

Summary cash flows for 2022 and 2021 are as follows:

	Year Ended December 30, 2022	Year Ended December 31, 2021	Change	% Change
Cash flows from operating activities	\$ (959,921)	\$ 5,846,028	\$ (6,805,949)	(116%)
Cash flows from noncapital financing activities	1,768,791	(7,550,381)	9,319,172	123%
Cash flows from capital and related financing activities	105,150,188	12,521,816	92,628,372	740%
Cash flows from investing activities	(104,741,555)	(24,444,799)	(80,296,756)	(328%)
Net change in cash and cash equivalents	1,217,503	(13,627,336)	14,844,839	109%
Cash and cash equivalents at beginning of year	2,218,692	15,846,028	(13,627,336)	(86%)
Cash and cash equivalents at end of year	<u>\$ 3,436,195</u>	<u>\$ 2,218,692</u>	<u>\$ 1,217,503</u>	55%

The significant differences in cash flows in 2022 versus 2021 are:

Operating activities:

- Cash collected from contract revenues decreased by \$27.3 million, or 36%, consistent with the 34% decrease in accrual basis revenues.
- Cash collected from intellectual property (IP) income decreased by 29% consistent with the decrease in accrual-based IP income.
- Payments to employees decreased by \$10.3 million in 2022 mainly due to the sale of the engineering division. Note that for both years, payments to employees and related benefits include payments made under the Organization's intellectual property income sharing policy. These payments have been netted against intellectual property revenues in the statements of revenues, expenses and changes in net position.
- Payments to suppliers decreased by \$10.9 million with a \$5.6 million decrease in payments for project related expenses along with a \$5.3 million decrease in indirect expenses.

Noncapital financing activities:

- Noncapital financing activities increased to \$46.8 million due primarily to contributions of \$45 million received from the Alabama House Bill 138.

Capital and related financing activities:

- Purchases of capital assets increased from \$3.2 million in 2021 to \$6.8 million in 2022.

**SOUTHERN RESEARCH INSTITUTE
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STATEMENTS OF CASH FLOWS – CONTINUED

- Principal and interest payments on long-term debt were \$14 million in 2022, including the refinanced bond, and \$1.7 million in 2021. The bond was refinanced in 2022 with \$9.7 million in proceeds.
- Proceeds from the sale of the Organization's Engineering division yielded a net of \$71.2 million in proceeds in 2022.

Investing activities:

- Purchases of investments increased from \$25.7 million in 2021 to \$227.5 million in 2022, and proceeds from sales of investments increased from \$1.0 million in 2021 to \$121.5 million in 2022. Purchases of investments in 2021 comprised, principally, proceeds from the sale of a property for \$17.4 million and excess cash transferred from operations. Net proceeds from sales and purchases of investments for 2022 were funded by cash proceeds of \$71.2 million from the sale of a business unit and a state appropriation of \$45.0 million from the State of Alabama.
- Interest and dividend income was approximately \$1.3 million in 2022 and \$0.3 million in 2021.

Summary cash flows for 2021 and 2020 are as follows:

	Year Ended December 31, 2021	Year Ended January 1, 2021	Change	% Change
Cash flows from operating activities	\$ 5,846,028	\$ 10,134,604	\$ (4,288,576)	(42%)
Cash flows from noncapital financing activities	(7,550,381)	7,959,243	(15,509,624)	(195%)
Cash flows from capital and related financing activities	12,521,816	7,624,841	4,896,975	64%
Cash flows from investing activities	<u>(24,444,799)</u>	<u>(10,342,987)</u>	<u>(14,101,812)</u>	(136%)
Net change in cash and cash equivalents	(13,627,336)	15,375,701	(29,003,037)	(189%)
Cash and cash equivalents at beginning of year	<u>15,846,028</u>	<u>470,327</u>	<u>15,375,701</u>	3269%
Cash and cash equivalents at end of year	<u>\$ 2,218,692</u>	<u>\$ 15,846,028</u>	<u>\$ (13,627,336)</u>	(86%)

The significant differences in cash flows in 2021 versus 2020 are:

- Cash collected from contract revenues decreased by \$9.1 million (11%), 9 percentage points lower than the 2% decrease in accrual basis revenues, due primarily to the timing of customer milestone payments.
- Cash collected from intellectual property (IP) income increased by 15% consistent with the increase in accrual-based IP income.

SOUTHERN RESEARCH INSTITUTE
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DECEMBER 30, 2022 AND DECEMBER 31, 2021

STATEMENTS OF CASH FLOWS – CONTINUED

- Payments to employees decreased by \$2.7 million in 2021 with merit and market increases, and increases in benefit costs and payments under the intellectual property income sharing policy offset by a decrease in headcount. Note that for both years, payments to employees and related benefits include payments made under the Organization's intellectual property income sharing policy. These payments have been netted against intellectual property revenues in the statements of revenues, expenses, and changes in net position.
- Payments to suppliers decreased by \$1.8 million with a \$2.2 million decrease in payments for project related expenses offset by a \$0.4 million increase in indirect expenses.

Noncapital financing activities:

- Noncapital financing activities decreased by \$15.5 million due primarily to 2020 loan proceeds of \$7.7 million from a local financial institution related to the Paycheck Protection Program, that were repaid in 2021.

Capital and related financing activities:

- Purchases of capital assets increased from \$1.8 million in 2020 to \$3.2 million in 2021, net of capital leases of \$1.0 million in 2020. No capital leases entered into in 2021.
- Principal and interest payments on long-term debt were \$1.6 million in 2021 and 2020.

Investing activities:

- Purchases of investments increased from \$12.7 million in 2020 to \$25.7 million in 2021, and proceeds from sales of investments decreased from \$2.1 million in 2020 to \$1.0 million in 2021 due to a net transfer from operations to investments of \$10.9 million from the sale of a property in 2020, and a net transfer to operations of \$25 million in 2021 from excess operating cash and net proceeds from the sale of a property of \$17.4 million.
- Interest and dividend income was approximately \$0.3 million in 2021 and \$0.2 million in 2020; the decline was due to a shift in investments from equity to fixed income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

An aspect of the Organization's continued growth is an emphasis on the expansion and maintenance of capital assets. The Organization continues to acquire new capital assets and maintain and upgrade those assets it already possesses, as financial resources allow. At December 31, 2022, capital expenditure commitments were approximately \$83.8 million.

Capital assets include land, buildings, equipment and intangibles, such as patent costs. As shown on the statements of cash flows, in 2022 the Organization invested approximately \$6.8 million in capital assets.

The long-term debt at December 30, 2022 and December 31, 2021, was related to a \$20.0 million Recovery Zone Facility Bond issued on August 30, 2010, and refinanced on September 1, 2022, and various leases totaling approximately \$78 thousand at year-end.

**SOUTHERN RESEARCH INSTITUTE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

CAPITAL ASSETS AND DEBT ADMINISTRATION – CONTINUED

During 2022 and 2021, the Organization made long-term debt payments of \$13.7 million and \$1.3 million, respectively, with 2022 payments comprising \$12.8 million related to the Recovery Zone Facility Bond and the balance related to lease payments.

FINANCIAL STATEMENTS

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF NET POSITION – ENTERPRISE FUND
DECEMBER 30, 2022 AND DECEMBER 31, 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,436,195	\$ 2,218,692
Investments	158,759,828	51,179,367
Restricted cash and investments	11,471,250	13,308,476
Accounts receivable, net	11,099,935	20,639,167
Other receivables	838,735	514,425
Materials and supplies, net	216,277	920,111
Prepayments and other current assets	791,055	814,499
Total current assets	186,613,275	89,594,737
NONCURRENT ASSETS		
Net OPEB asset	1,756,251	2,053,566
Capital assets:		
Land and improvements	4,037,692	4,128,885
Buildings and major plant equipment	34,602,876	50,606,039
Laboratory equipment and fixtures	40,976,551	55,608,810
Office furniture and equipment	3,058,558	3,417,399
Intangible assets, net	1,808,088	2,103,141
	84,483,765	115,864,274
Less accumulated depreciation	66,781,306	85,047,276
	17,702,459	30,816,998
Construction-in-progress	4,532,910	1,630,206
Total capital assets, net	22,235,369	32,447,204
Total noncurrent assets	23,991,620	34,500,770
TOTAL ASSETS	210,604,895	124,095,507
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - OPEB	574,750	174,529
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$211,179,645	\$124,270,036

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF NET POSITION – ENTERPRISE FUND
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

	2022	2021
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 4,615,663	\$ 2,228,778
Accrued liabilities	3,431,282	4,651,678
Unearned contract revenue	9,656,534	9,710,441
Current maturities of long-term debt	798,387	13,043,565
Note payable	1,639,864	-
	<u>20,141,730</u>	<u>29,634,462</u>
NONCURRENT LIABILITIES		
Long-term debt	8,778,514	585,318
	<u>8,778,514</u>	<u>585,318</u>
TOTAL LIABILITIES	<u>28,920,244</u>	<u>30,219,780</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - OPEB	1,824,877	1,960,536
	<u>1,824,877</u>	<u>1,960,536</u>
NET POSITION		
Net investment in capital assets	12,658,468	18,818,321
Restricted:		
Expendable	10,076,662	12,481,131
Unrestricted	157,699,394	60,790,268
	<u>157,699,394</u>	<u>60,790,268</u>
Total net position	<u>180,434,524</u>	<u>92,089,720</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$211,179,645</u>	<u>\$124,270,036</u>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 30, 2022 AND DECEMBER 31, 2021**

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Contract revenues	\$ 51,891,496	\$ 78,975,963
Intellectual property revenues, net of direct expenses	<u>1,055,675</u>	<u>1,882,898</u>
Total operating revenues	<u>52,947,171</u>	<u>80,858,861</u>
OPERATING EXPENSES		
Salaries, wages and benefits	28,713,097	40,538,321
Supplies and services	24,181,572	30,542,548
Depreciation and amortization	<u>3,828,831</u>	<u>5,643,278</u>
Total operating expenses	<u>56,723,500</u>	<u>76,724,147</u>
OPERATING INCOME (LOSS)	<u>(3,776,329)</u>	<u>4,134,714</u>
NONOPERATING REVENUES AND EXPENSES		
Contributions	128,927	155,458
Investment income (loss)	(2,887,977)	1,529,017
Interest expense	(261,599)	(327,828)
Gain on disposal of assets	<u>-</u>	<u>4,254,037</u>
Income (loss) before capital contributions and special items	<u>(6,796,978)</u>	<u>9,745,398</u>
Capital contributions	45,000,000	-
Gain (loss) on discontinued operations	<u>50,141,782</u>	<u>-</u>
CHANGE IN NET POSITION	88,344,804	9,745,398
NET POSITION AT BEGINNING OF YEAR	<u>92,089,720</u>	<u>82,344,322</u>
NET POSITION AT END OF YEAR	<u><u>\$180,434,524</u></u>	<u><u>\$ 92,089,720</u></u>

See notes to the financial statements.

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF CASH FLOWS – ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 30, 2022 AND DECEMBER 31, 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 48,704,158	\$ 76,030,192
Intellectual property revenues	1,769,689	2,485,271
Payments to employees and related benefits	(30,847,909)	(41,141,886)
Payments to suppliers	<u>(20,585,859)</u>	<u>(31,527,549)</u>
Net cash provided (used) by operating activities	<u>(959,921)</u>	<u>5,846,028</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	128,927	176,319
Repayment of long-term debt - noncapital	-	(7,726,700)
Net change in note payable	<u>1,639,864</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>1,768,791</u>	<u>(7,550,381)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(6,764,065)	(3,186,709)
Principal payments on long-term debt	(13,730,496)	(1,265,345)
Proceeds from long-term debt	9,678,514	-
Interest payments on long-term debt	(261,599)	(379,096)
Capital contributions	45,000,000	-
Proceeds from sale of capital assets	-	17,352,966
Proceeds from discontinued operations	<u>71,227,834</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>105,150,188</u>	<u>12,521,816</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	121,478,913	945,876
Purchases of investments	(227,520,422)	(25,717,123)
Interest on cash	424	275
Interest and dividend income on investments	<u>1,299,530</u>	<u>326,173</u>
Net cash used in investing activities	<u>(104,741,555)</u>	<u>(24,444,799)</u>

See notes to the financial statements.

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF CASH FLOWS – ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 30, 2022 AND DECEMBER 31, 2021

	<u>2022</u>	<u>2021</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 1,217,503	\$ (13,627,336)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,218,692</u>	<u>15,846,028</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,436,195</u>	<u>\$ 2,218,692</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (3,776,329)	\$ 4,134,714
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,828,831	5,643,278
Noncash adjustment of postretirement benefits	(238,565)	(92,421)
Change in accounts receivable, net	(3,049,926)	(3,411,303)
Change in other receivables	175,690	41,762
Change in materials and supplies, net	121,598	54,565
Change in prepayments and other current assets	(122,713)	1,935,428
Change in accounts payable	3,375,796	(1,561,297)
Change in accrued liabilities	(1,220,396)	(1,117,982)
Change in unearned contract revenue	<u>(53,907)</u>	<u>219,284</u>
Net cash provided (used) by operating activities	<u>\$ (959,921)</u>	<u>\$ 5,846,028</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of investments	<u>\$ (4,187,931)</u>	<u>\$ 1,202,569</u>
Contributed stock from disposal of operations	<u>\$ 5,000,000</u>	<u>\$ -</u>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE – VEBA TRUST FUND
STATEMENTS OF FIDUCIARY NET POSITION – OPEB TRUST FUND
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,037	\$ 4,875
Investments, at fair value	<u>3,795,333</u>	<u>4,163,531</u>
TOTAL ASSETS	<u>\$ 3,796,370</u>	<u>\$ 4,168,406</u>

LIABILITIES AND NET POSITION

NET POSITION RESTRICTED FOR OPEB	<u>\$ 3,796,370</u>	<u>\$ 4,168,406</u>
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See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE – VEBA TRUST FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION – OPEB TRUST FUND
FOR THE YEARS ENDED DECEMBER 30, 2022 AND DECEMBER 31, 2021**

	<u>2022</u>	<u>2021</u>
ADDITIONS		
Increase (decrease) in fair value of investments	\$ (470,346)	\$ 322,882
Dividends and interest	105,498	114,969
Total additions	<u>(364,848)</u>	<u>437,851</u>
DEDUCTIONS		
Administrative expenses	7,188	10,063
Total deductions	<u>7,188</u>	<u>10,063</u>
NET INCREASE (DECREASE)	(372,036)	427,788
NET POSITION RESTRICTED FOR OPEB AT BEGINNING OF YEAR	<u>4,168,406</u>	<u>3,740,618</u>
NET POSITION RESTRICTED FOR OPEB AT END OF YEAR	<u><u>\$ 3,796,370</u></u>	<u><u>\$ 4,168,406</u></u>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

1. ORGANIZATION AND SCOPE OF STATEMENTS

Organization

Southern Research Institute (the Organization) is an Alabama not-for-profit, 501(c)(3) corporation. The Organization offers research and technology services to support industry and federal government agencies primarily in the areas of drug discovery and development, and environment and energy. Until May 23, 2022, the Organization offered such services also for materials and systems engineering. Effective November 4, 2022, the Board of Directors entered into an affiliation agreement with the Board of Trustees of the University of Alabama (UA).

For financial reporting purposes, the Organization is a component unit of UA. A component unit is a legally separate organization for which the primary government is financially accountable. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, UA appoints the Organization's Board of Directors and is able to impose its will on the Organization.

In evaluating the Organization as a reporting entity, management has determined that the Organization is financially accountable for the Southern Research Institute Health and Welfare Benefit Program (the Plan) and, as such, has included the Plan as an OPEB Trust Fund within the Organization's financial statements. The OPEB Trust Fund is a fiduciary fund used to account for the assets held in trust for the benefit of employees of the Organization who participate in the Plan.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization complies with all applicable GASB pronouncements. The operations of the Organization are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred. Net position is classified and reported in three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Restricted – This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

The operations of the Plan are presented as an OPEB trust fund, which is a type of fiduciary fund, following the accrual basis of accounting in order to recognize the flow of economic resources. Investments are reported at fair value.

Fiscal Year

The Organization operates on a 52/53-week fiscal year, with the fiscal year-end on the Friday nearest December 31. The accompanying financial statements cover the period from January 1, 2021 through December 30, 2022 (2022), and January 2, 2021 through December 31, 2021 (2021).

Cash Equivalents

The Organization classifies all highly liquid investments with maturities of three months or less when purchased, and not designated as restricted, as cash equivalents. The Organization maintains deposits at financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Investments

Investments are carried at fair value based on quoted market prices with all investment income reported in the statements of revenues, expenses and changes in net position-enterprise fund.

Accounts Receivable

The Organization reports accounts receivable at net realizable value. The allowance for doubtful accounts on accounts receivable is maintained in amounts estimated to provide adequate reserves to cover anticipated losses based on historical bad-debt experience and evaluation of periodic aging of the accounts. On a continuing basis, management analyzes delinquent receivables, and once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account.

Accrued costs and profits on fixed-price contracts and subcontracts included in unbilled receivables are billed as work is performed and accepted by the customer. Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in work-in-progress under fixed-price contracts. The Organization estimates that unbilled receivables will be collectible within one year.

Materials and Supplies

Materials and supplies are valued at the lower of cost or market, on a first-in, first-out (FIFO) method. Materials and supplies are shown net of reserves of \$60,000 for 2022 and 2021.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, including leased assets, are recorded at cost and are depreciated or amortized using the shorter of the straight-line method over the following estimated useful lives of the assets or the period of the lease:

Land improvements	5 years
Buildings and major plant equipment	15 - 50 years
Laboratory equipment and fixtures	3 - 20 years
Office furniture and equipment	3 - 10 years

Amortization of leased assets is included in depreciation expense. Expenditures for maintenance and repairs are charged to operations as incurred.

Intangibles

Intangible assets include the costs of acquiring and defending patents and licenses on technology developed by the Organization. The costs of patents and licenses are being amortized using the straight-line method over their estimated useful lives, approximately 20 years. Impairment of intangible assets is reviewed annually and the carrying value adjusted based on the probability of future benefit.

Post-Employment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

GASB provides that certain amounts reported on the statements of net position of a governmental entity be reported separately from assets and liabilities and be reported as deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or a reduction of expense) until that time. The Organization's deferred outflows of resources and deferred inflows of resources are related to the other postemployment benefits (OPEB) plan and result from differences between expected and actual experience, differences between expected and actual investment earnings and changes of assumptions.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 30, 2022 AND DECEMBER 31, 2021**

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Organization is exempt from federal income tax under Section 501(a) of the United States Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3) and is not a private foundation as described in IRC Section 509(a). However, the Organization is required to pay tax on income from activities unrelated to its exempt purposes (unrelated business income). During 2022 and 2021, the Organization did not receive refunds of taxes paid, nor pay/accrue any taxes owed.

Restricted – Expendable Net Position

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted – expendable net position is reflected as a transfer to unrestricted net position in the statements of revenues, expenses and changes in net position. The Organization reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization has received donations with stipulations on how the funds should be used, although none of these donations have permanent legal restrictions. While it is the Organization's present intent to only use the investment income generated from these donations for the stipulated purposes, the Board of Directors has the right to use the donations for the stipulated purposes. The Organization has restricted expendable net position related to restricted investments at December 30, 2022 and December 31, 2021, of \$11,471,250 and \$13,308,476, respectively. The Organization has no restricted expendable net position related to restricted donations at December 30, 2022 and December 31, 2021. The Organization has restricted expendable net position related to deferred outflows – OPEB of \$574,750 and \$174,529 at December 30, 2022 and December 31, 2021, respectively. The Organization has restricted expendable net position related to deferred inflows – OPEB of \$1,824,877 and \$1,960,536 at December 30, 2022 and December 31, 2021, respectively. In addition, the Organization's net OPEB asset at December 30, 2022 and December 31, 2021, of \$1,756,251 and \$2,053,566, respectively, is reported as restricted expendable net position, as the Board of Directors may use the assets held in trust for benefits provided to employees and retirees. Finally, the Organization has restricted expendable net position related to appropriations from the State of Alabama of \$1,900,712 and \$1,094,904 at December 30, 2022 and December 31, 2021, respectively.

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Organization. Operating revenues consist primarily of charges for services related to contracts and intellectual property revenue.

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2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Organization is involved in various types of research, primarily through contracts with the U.S. Government and industrial companies. Revenues on cost-plus-fee contracts and cost-sharing arrangements are recognized to the extent of reimbursable costs incurred, plus estimated fees earned thereon. Revenues on fixed-price contracts are recognized on the percentage-of-completion method based on cost incurred in relation to total estimated cost. Losses on contracts are recognized in the period in which the losses become known.

The Organization receives revenue from the licensing of intellectual property. Revenue is received in the form of license fees and royalties on drug sales. License fees are recognized as revenue when the earnings process is complete, and the Organization has no further continuing performance obligations and has completed its performance under the terms of the agreement. Royalties received on the sale of drugs licensed to third parties are recognized as revenue based on receipt of the quarterly royalty payment and estimated for periods for which the royalty payment has not been received.

Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from nonexchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Organization's policy to apply those expenses to restricted net position to the extent such is available and then to unrestricted net position.

The U.S. Government accounted for approximately 42% of the Organization's contract revenues in 2022 and 70% in 2021.

Capital Contributions

On April 7, 2022, the Alabama House of Representatives passed House Bill (HB) 138, making supplemental appropriations from the Education Trust Fund to various agencies and entities for the fiscal year ended September 30, 2022. HB 138 included an appropriation to the Organization of \$45 million. While not specified in the bill, management intends to use the funds solely for the construction of new facilities and renovation of existing facilities.

Beneficial Interest in Perpetual Trust

The Organization is the beneficiary of an 18.3% interest in a perpetual trust (the Trust) and receives annual distributions from the Trust. The Trust had a fair market value of approximately \$14,455,000 and \$18,600,000 at December 30, 2022 and December 31, 2021, respectively and received approximately \$157,000 and \$108,000 for the years ended December 30, 2022 and December 31, 2021, respectively. Management evaluated and determined that the Trust revenues do not meet the eligibility requirements for recognition until the funds are received; therefore, the Organization has not recorded its share of the fair market value of the Trust on the accompanying statements of net position-enterprise fund.

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2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Independent Research and Development Costs

Independent research and development (IR&D) is conducted by the Organization under internal projects. IR&D costs incurred were \$284,914 and \$830,391 in 2022 and 2021, respectively, and are included in operating expenses in the accompanying statements of revenues, expenses and changes in net position – enterprise fund.

Use of Estimates

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States of America which require 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.

Fair Value Measurements

The Organization maintains all investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is described as an exit price.

Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. Fair value is determined considering the unit of account, which is the level at which the asset or liability is aggregated or disaggregated for measurement, recognition or disclosure purposes (i.e., the unit of account in a brokerage account is each individual investment as compared to investments in mutual funds where the unit of account is each share held in the mutual fund).

Fair value measurement guidance establishes a fair value hierarchy which categorizes the inputs to valuation techniques used to measure fair value into three levels, defined as follows:

- Level 1 – Inputs based on quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets or identical assets in markets that are not active.
- Level 3 – Inputs are unobservable inputs for an asset or liability and may include management's own estimates using the best information available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through May 4, 2023, which is the date the financial statements were issued.

3. CASH AND CASH EQUIVALENTS

The carrying amount of cash balances at December 30, 2022, totaled \$3,436,195 (\$2,218,692 for 2021), and the bank balance was \$4,009,912 (\$2,354,641 for 2021). The bank balances were insured up to \$0.8 million at December 30, 2022, and \$0.8 million at December 31, 2021. The Organization has not experienced any losses on amounts in excess of insurance coverage and does not believe any excess amounts pose a significant risk.

4. INVESTMENTS

Unrestricted Investments

As of December 30, 2022, the Organization had unrestricted investments in equity mutual funds totaling \$4,007,197, private equity funds of \$3,433,669, unrestricted investments in privately held companies of \$382,677 and the following unrestricted fixed-income investments and maturities:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Mutual funds - bonds	\$ 150,936,285	\$ 94,138,961	\$ 56,797,324	\$ -	\$ -

The carrying amount of the investments shown above equals fair market value.

Unrestricted Investments

As of December 31, 2021, the Organization had unrestricted investments in a private equity fund of \$211,233, unrestricted investments in privately held companies of \$382,677 and the following unrestricted fixed-income investments and maturities:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Mutual funds - bonds	\$ 50,585,457	\$ 24,083,736	\$ 26,501,721	\$ -	\$ -

The carrying amount of the investments shown above equals fair market value.

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4. INVESTMENTS – CONTINUED

Restricted Cash and Investments

As of December 30, 2022, the Organization had restricted investments in equity mutual funds totaling \$7,359,203 and the following restricted cash and fixed-income investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities of Underlying Securities (in Years)</u>				
	<u>Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money market funds	\$ 3,294	\$ 3,294	\$ -	\$ -	\$ -
Mutual funds - bonds	4,108,753	536,590	3,572,163	-	-
	<u>\$ 4,112,047</u>	<u>\$ 539,884</u>	<u>\$ 3,572,163</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying amount of the investments shown above equals fair market value.

Restricted Cash and Investments

As of December 31, 2021, the Organization had restricted investments in equity mutual funds totaling \$8,615,061 and the following restricted cash and fixed-income investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities of Underlying Securities (in Years)</u>				
	<u>Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money market funds	\$ 15,201	\$ 15,201	\$ -	\$ -	\$ -
Mutual funds - bonds	4,678,214	538,197	4,140,017	-	-
	<u>\$ 4,693,415</u>	<u>\$ 553,398</u>	<u>\$ 4,140,017</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying amount of the investments shown above equals fair market value.

Interest Rate Risk – The Organization has investment policy statements that seek to limit its exposure to fair value losses resulting from rising interest rates by investing in mutual funds that limit the duration and maturity of the underlying fixed income investments in the mutual funds it purchases.

Credit Risk – The Organization has investment policy statements that seek to minimize credit risk through diversification. At December 30, 2022 and December 1, 2021, the Organization had investments in mutual funds which only purchase fixed income securities rated BBB or better. The average credit ratings of holdings are between A and AA.

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4. INVESTMENTS – CONTINUED

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Organization has no formal policy on custodial credit risk. At December 30, 2022, the Organization had uncollateralized restricted cash and investments with Fidelity Investments (Fidelity) of \$11,471,250, unrestricted cash and investments with Fidelity of \$158,266,722, and other unrestricted investments of \$3,816,346 (discussed below). At December 31, 2021, the Organization had uncollateralized restricted cash and investments with Fidelity Investments (Fidelity) of \$13,308,476, unrestricted cash and investments with Fidelity of \$50,865,342, and other unrestricted investments of \$593,910 (discussed below).

During the year ended December 31, 2006, the Organization invested \$30,000 and committed to invest an additional \$270,000 over the next ten years in a new private equity fund, Birmingham Technology Fund, LLC (the Fund). The Fund had been formed to provide investors the opportunity to invest in privately held companies that are commercializing technologies developed at the academic and research institutions in the State of Alabama, with a primary focus on medical and life sciences technology developed at UAB. No additional investments were made in 2022.

During the year ended December 30, 2022, the Organization acquired shares of a publicly traded company as part of the sale of an operating division. The shares were valued at \$5,000,000 at the date of acquisition and \$3,250,521 at year end.

Private company stock of approximately \$27,000 was held as of December 30, 2022 and December 31, 2021.

Fair Value

The Organization maintains all investments at fair value. Investments are classified into a fair value measurement using the levels and inputs as described in Note 2.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

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4. INVESTMENTS - CONTINUED

Investment Securities – The Organization places reliance on external investment managers or designated agents to provide fair value information for the investments held. The following fair value measurement inputs were used for investments held by the Organization:

- Mutual funds – Fair values for debt and equity mutual funds were determined using quoted market prices and are classified as Level 1 within the fair value hierarchy.
- Privately held securities – These investments are carried at cost, as management considers the fair values of these investments to be approximately equal to cost.

The following fair value hierarchy table presents information about the Organization’s investments measured at fair value as of December 30, 2022:

	<u>Fair Value</u>	<u>Fair Value Measurement at Report Date Using</u>		
		<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investment Securities:				
Equity mutual funds:				
Large and mid-cap	\$ 6,221,223	\$ 6,221,223	\$ -	\$ -
International	3,597,701	3,597,701	-	-
Real estate	649,073	649,073	-	-
Utilities	898,404	898,404	-	-
Bond mutual funds:				
Short-term	148,516,700	148,516,700	-	-
International	6,528,338	6,528,338	-	-
Privately held investments	3,816,346	-	-	3,816,346
Total investments	<u>\$ 170,227,785</u>	<u>\$ 166,411,439</u>	<u>\$ -</u>	<u>\$ 3,816,346</u>

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4. INVESTMENTS – CONTINUED

The following fair value hierarchy table presents information about the Organization’s investments measured at fair value as of December 31, 2021:

	<u>Fair Value</u>	<u>Fair Value Measurement at Report Date Using</u>		
		<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investment Securities:				
Equity mutual funds:				
Large and mid-cap	\$ 4,769,352	\$ 4,769,352	\$ -	\$ -
International	2,688,269	2,688,269	-	-
Real estate	514,200	514,200	-	-
Utilities	643,240	643,240	-	-
Bond mutual funds:				
Short-term	53,518,125	53,518,125	-	-
International	1,745,546	1,745,546	-	-
Privately held investments	593,910	-	-	593,910
Total investments	<u>\$ 64,472,642</u>	<u>\$ 63,878,732</u>	<u>\$ -</u>	<u>\$ 593,910</u>

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5. ACCOUNTS RECEIVABLE

The components of accounts receivable at year-end were as follows:

	<u>2022</u>	<u>2021</u>
Billed	\$ 8,070,545	\$ 9,685,153
Unbilled	<u>3,272,073</u>	<u>11,111,220</u>
	11,342,618	20,796,373
Less allowances	<u>242,683</u>	<u>157,206</u>
	<u>\$ 11,099,935</u>	<u>\$ 20,639,167</u>

6. OTHER RECEIVABLES

At December 30, 2022 and December 31, 2021, other receivables consisted primarily of amounts due from the licensing of intellectual property (IP), contributions receivable and reimbursable medical expenses. IP revenue is received in the form of license fees, milestone payments and royalties on drug sales. Contribution revenue and receivables are recorded when a donor makes a donation pledge.

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7. CAPITAL ASSETS

Capital assets activity for the year ended December 30, 2022, is summarized below:

	<u>Balance at December 31, 2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements/ Reimburse- ments</u>	<u>Balance at December 30, 2022</u>
Capital assets not being depreciated:					
Land	\$ 2,969,686	\$ -	\$ -	\$ (51,334)	\$ 2,918,352
Construction-in-progress	1,630,206	4,306,079	(946,501)	(456,874)	4,532,910
	<u>4,599,892</u>	<u>4,306,079</u>	<u>(946,501)</u>	<u>(508,208)</u>	<u>7,451,262</u>
Capital assets being depreciated:					
Land improvements	1,159,199	-	-	(39,859)	1,119,340
Buildings and major plant equipment	50,606,039	-	271,015	(16,274,178)	34,602,876
Laboratory equipment and fixtures	55,608,810	1,913,235	407,368	(16,952,862)	40,976,551
Office furniture and equipment	3,417,399	68,371	268,118	(695,330)	3,058,558
	<u>110,791,447</u>	<u>1,981,606</u>	<u>946,501</u>	<u>(33,962,229)</u>	<u>79,757,325</u>
	<u>115,391,339</u>	<u>6,287,685</u>	<u>-</u>	<u>(34,470,437)</u>	<u>87,208,587</u>
Less accumulated depreciation	<u>(85,047,276)</u>	<u>(3,607,585)</u>	<u>-</u>	<u>21,873,555</u>	<u>(66,781,306)</u>
	<u>30,344,063</u>	<u>2,680,100</u>	<u>-</u>	<u>(12,596,882)</u>	<u>20,427,281</u>
Intangibles	3,139,984	476,380	-	(836,662)	2,779,702
Less accumulated amortization	<u>(1,036,843)</u>	<u>(221,246)</u>	<u>-</u>	<u>286,475</u>	<u>(971,614)</u>
	<u>2,103,141</u>	<u>255,134</u>	<u>-</u>	<u>(550,187)</u>	<u>1,808,088</u>
	<u>\$ 32,447,204</u>	<u>\$ 2,935,234</u>	<u>\$ -</u>	<u>\$(13,147,069)</u>	<u>\$ 22,235,369</u>

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7. CAPITAL ASSETS – CONTINUED

Capital assets activity for the year ended December 31, 2021, is summarized below:

	<u>Balance at January 1, 2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements/ Reimburse- ments</u>	<u>Balance at December 31, 2021</u>
Capital assets not being depreciated:					
Land	\$3,804,586	-	-	(\$834,900)	\$2,969,686
Construction-in-progress	1,341,134	1,220,604	(931,532)	-	1,630,206
	<u>5,145,720</u>	<u>1,220,604</u>	<u>(931,532)</u>	<u>(834,900)</u>	<u>4,599,892</u>
Capital assets being depreciated:					
Land improvements	1,318,089	-	-	(158,890)	1,159,199
Buildings and major plant equipment	66,665,302	27,563	505,936	(16,592,762)	50,606,039
Laboratory equipment and fixtures	57,654,248	1,532,593	417,061	(3,995,092)	55,608,810
Office furniture and equipment	3,522,256	27,536	8,535	(140,928)	3,417,399
	<u>129,159,895</u>	<u>1,587,692</u>	<u>931,532</u>	<u>(20,887,672)</u>	<u>110,791,447</u>
	134,305,615	2,808,296	-	(21,722,572)	115,391,339
Less accumulated depreciation	<u>(88,209,821)</u>	<u>(5,461,098)</u>	<u>-</u>	<u>8,623,643</u>	<u>(85,047,276)</u>
	46,095,794	(2,652,802)	-	(13,098,929)	30,344,063
Intangibles	2,761,572	378,412	-	-	3,139,984
Less accumulated amortization	<u>(854,663)</u>	<u>(182,180)</u>	<u>-</u>	<u>-</u>	<u>(1,036,843)</u>
	<u>1,906,909</u>	<u>196,232</u>	<u>-</u>	<u>-</u>	<u>2,103,141</u>
	<u>\$48,002,703</u>	<u>\$ (2,456,570)</u>	<u>\$ -</u>	<u>\$(13,098,929)</u>	<u>\$32,447,204</u>

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7. CAPITAL ASSETS – CONTINUED

Depreciation expense for the years ended December 30, 2022 and December 31, 2021, was \$3,607,585 and \$5,461,098, respectively.

Amortization expense for the years ended December 30, 2022 and December 31, 2021, was \$221,246 and \$182,180, respectively.

8. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows at year-end:

	<u>2022</u>	<u>2021</u>
Payroll related payables	\$ 1,850,269	\$ 3,378,391
Intellectual property awards accrual	502,790	341,073
Healthcare obligations	182,000	225,700
Other accrued expenses	<u>896,223</u>	<u>706,514</u>
	<u>\$ 3,431,282</u>	<u>\$ 4,651,678</u>

9. SELF-INSURANCE

The Organization is self-insured for employees' healthcare and dental coverage with a \$1,500 annual maximum per covered employee for dental. The Organization has an excess claims policy for health claims exceeding \$250,000 annually per covered individual. Provision is made in the financial statements for estimates of both reported claims and claims incurred but not reported. These estimates are provided by the Organization's claims administrator and are determined using details of historical activity.

Changes in the total self-insured liabilities are reported in accrued liabilities in the statements of net position and are presented below:

	<u>2022</u>	<u>2021</u>
Beginning of the year accrual	\$ 225,700	\$ 198,400
Claims expense	1,804,197	2,521,014
Claims paid	<u>(1,847,897)</u>	<u>(2,493,714)</u>
	<u>\$ 182,000</u>	<u>\$ 225,700</u>

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10. LONG-TERM DEBT

Conduit Debt

On August 30, 2010, The Cooperative District of the City of Birmingham – Southern Research Institute issued, for the benefit of the Organization as the guarantor, \$20 million of Recovery Zone Facility Bonds. These bonds were held by BBVA Compass for an initial term of seven years and bore interest at a variable rate. The bond proceeds were used primarily for upgrades to the Organization’s laboratory facilities and equipment located in Birmingham, Alabama.

Effective on September 1, 2017, for the entire outstanding balance of the 2010 bonds, the Organization established a new direct loan mode under the 2010 indenture with the trustee, Regions Bank, and the lender, Regions Capital Advantage, Inc.

Effective on September 1, 2022, for the entire outstanding balance of the 2010 bonds, the Organization established a new direct loan mode under the 2010 indenture with the trustee, Regions Bank, and the lender, Regions Capital Advantage, Inc. The direct loan period maturity date is September 1, 2027.

Under the terms of the credit agreement, the Organization is subject to certain restrictive covenants, of which the Organization was in compliance during 2022 and 2021. In the event of a default on the obligation, the lender may exercise rights and remedies available under the credit agreement or applicable laws.

In April 2020, the Organization received a loan under the Paycheck Protection Program (PPP Term Loan) for \$7,726,700 from a local financial institution. The U.S. Small Business Administration (SBA), an agency of the United States, fully guaranteed the PPP Term Loan. The Organization repaid the loan during 2021.

Long-term debt activity for the year ended December 30, 2022, is summarized as follows:

	Balance at December 31, 2021	Additions	Payments/ Reductions	Balance at December 30, 2022	Due Within One Year
Lease obligations	\$ 1,018,883	\$ -	\$ (940,496)	\$ 78,387	\$ 78,387
Recovery Zone Facility Bonds held by Regions Capital Advantage, fixed interest rate (3.05%) for five-year term starting September 22, 2027	12,610,000	9,678,514	(12,790,000)	9,498,514	720,000
	<u>\$ 13,628,883</u>	<u>\$ 9,678,514</u>	<u>\$ (13,730,496)</u>	<u>\$ 9,576,901</u>	<u>\$ 798,387</u>

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10. LONG-TERM DEBT – CONTINUED

Long-term debt activity for the year ended December 31, 2021, is summarized as follows:

	<u>Balance at December 31, 2021</u>	<u>Additions</u>	<u>Payments/ Reductions</u>	<u>Balance at December 30, 2022</u>	<u>Due Within One Year</u>
Lease obligations	\$ 1,564,228	\$ -	\$ (545,345)	\$ 1,018,883	\$ 433,565
Recovery Zone Facility Bonds held by Regions Capital Advantage, fixed interest rate (2.06%) for five-year term starting September 22, 2017	13,330,000		(720,000)	12,610,000	12,610,000
Payroll Protection Program Term Loan	<u>7,726,700</u>	<u>-</u>	<u>(7,726,700)</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,620,928</u>	<u>\$ -</u>	<u>\$ (8,992,045)</u>	<u>\$ 13,628,883</u>	<u>\$ 13,043,565</u>

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10. LONG-TERM DEBT – CONTINUED

Maturities of long-term debt after 2022 are as follows:

Business-Type Activities Recovery Zone Facility Bonds			
Maturing	Rate	Amount of Maturity	Amount of Interest
2023	3.05%	\$ 720,000	\$ 283,511
2024	3.05%	780,000	261,592
2025	3.05%	840,000	235,423
2026	3.05%	840,000	209,447
2027	3.05%	6,318,514	140,154
		\$ 9,498,514	\$ 1,130,127

Business-Type Activities Notes from Direct Borrowings			
Maturing	Rates	Amount of Maturity	Amount of Interest
2023	4.55%	\$ 78,387	\$ 3,360
		\$ 78,387	\$ 3,360

The Organization incurred interest expense of \$261,599 and \$327,828 during 2022 and 2021, respectively.

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11. NOTE PAYABLE

On September 27, 2017, the Organization entered into a one-year \$3 million loan agreement with Regions Bank. The principal is due upon demand, and variable rate interest payments of Bloomberg Short-Term Bank Yield Index (BSBY Rate – 1 Month) plus 1.6% (1.6% floor) are due on a monthly basis. The loan is a revolving line of credit that is integrated with the Organization’s cash management system provided by a financial institution. The loan is secured by the Organization’s trade accounts receivable. As of December 31, 2021, the outstanding balance of the note payable was \$0. The Organization renewed the agreement on December 22, 2022, with a maturity of December 31, 2023. As of December 30, 2022, the outstanding balance of the note payable was \$1,639,864.

Note payable activity for the year ended December 30, 2022, is summarized as follows:

	<u>Balance at December 31, 2021</u>	<u>Additions</u>	<u>Payments/ Reductions</u>	<u>Balance at December 30, 2022</u>	<u>Due Within One Year</u>
Note payable	\$ -	\$ 5,810,345	\$ (4,170,481)	\$ 1,639,864	\$ 1,639,864
	<u>\$ -</u>	<u>\$ 5,810,345</u>	<u>\$ (4,170,481)</u>	<u>\$ 1,639,864</u>	<u>\$ 1,639,864</u>

Note payable activity for the year ended December 31, 2021, is summarized as follows:

	<u>Balance at January 1, 2021</u>	<u>Additions</u>	<u>Payments/ Reductions</u>	<u>Balance at December 31, 2021</u>	<u>Due Within One Year</u>
Note payable	\$ 172,370	\$ -	\$ (172,370)	\$ -	\$ -
	<u>\$ 172,370</u>	<u>\$ -</u>	<u>\$ (172,370)</u>	<u>\$ -</u>	<u>\$ -</u>

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)

General Information about the OPEB Plan

Plan description

The Organization sponsors a single-employer postretirement welfare benefit plan, entitled Southern Research Institute Health and Welfare Benefit Program (the Plan). In January 2003, the Organization established a trust fund (the Trust) to accumulate funds to pay the costs of benefits for participants covered by the Plan. The Trust and the Plan collectively constitute a "voluntary employee's beneficiary association" (VEBA) to fund benefits to eligible retirees and pay for administration expenses. Benefit provisions are established and may be amended by the Organization's Board of Directors. The Plan does not issue a publicly available report.

Benefits provided

The Plan provides for medical and dental insurance coverage to eligible retirees and their dependents not eligible for Medicare coverage. Life insurance coverage is available for retirees only, and coverage amounts depend on the retiree's age and salary at retirement. The coverage period for medical or dental insurance under the Plan is available from the date of retirement until either the retiree or the spouse becomes eligible for Medicare coverage, with time limits for spouses as shown below. The coverage period available for life insurance extends from the date of retirement through the age of 70.

Employees covered by benefit terms

Participants are eligible to receive benefits under the Plan upon meeting the age and service requirements indicated below:

<u>Date of Hire</u>	<u>Minimum Age and Service</u>
January 1, 2014, and after	59.5 with ten years continuous service; spousal coverage five years maximum
January 9, 2006 - December 31, 2013	55 with ten or more years continuous service; spousal coverage ten years maximum
Prior to January 9, 2006	55 with five or more years continuous service or 62 with two or more years continuous service

At January 1, 2022, the most recent actuarial valuation date, the Plan had 36 retirees and beneficiaries receiving benefits. The Plan had a total of 345 active participants.

Funding policy

The Organization established a VEBA to be used as a conduit to provide for benefit payments under the Plan. Assets have been segregated and restricted to provide for postretirement health and welfare premiums. The Organization has funded the VEBA initially to match the obligation and may provide for additional funding amounts as determined necessary by the Board of Directors. Administrative costs of the Plan are paid from investment earnings.

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

Net OPEB Liability (Asset)

The Organization’s net OPEB liability (asset) was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of January 1, 2022.

Actuarial assumptions – The total OPEB liability in the January 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal Method
Actuarial Value of Assets	Fair value of cash and investments
Amortization Method	Level Dollar Method
Mortality	RPH-2006 Mortality Table, with separate rates for annuitant and non-annuitant, projected generationally using Scale MP-2021
Discount Rate/Investment Rate of Return	6.5% per annum
Salary Scale	4% per annum
Healthcare Costs Rates	For medical costs, initial rate of 8% graded by 0.5% per year to an ultimate rate of 5.50% (dental costs, rate of 4.0% per year)
Withdrawal	Rates at sample ages range from 20% at age 20 to 1% at age 60; no withdrawal assumed after attainment of eligibility for retirement
Retirement	10% at age 55; 5% at ages 56-61; 25% at age 62; 10% at ages 63-64 and 100% at age 65
Marital Status	80% of retirees assumed married at retirement
Age Difference of Spouses	Males are assumed to be three years older than females
Plan Participation	50% of future retirees are assumed to elect coverage; 60% of retirees electing coverage who have spouses are assumed to elect spousal coverage
Per Capita Claims Cost	Developed based on active rates demographically adjusted to an age 65 cost. Pre-Medicare medical, \$14,760, Dental, \$710
Aging	2.5% per year until age 65
Annual Per Capita Retiree Contributions	Medical: single, \$4,320; retiree and spouse, \$8,640 Dental: single, \$207; retiree and spouse \$415

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

Changes in the Net OPEB Liability (Asset)

	<u>Total OPEB Liability (A)</u>	<u>Fiduciary Net Position (B)</u>	<u>Net OPEB Liability (Asset) (A)-(B)</u>
Balances at December 31, 2021	\$ 2,114,840	\$ 4,168,406	\$ (2,053,566)
Service cost	119,760	-	119,760
Interest cost	126,879	-	126,879
Differences between expected and actual experience	(321,359)	-	(321,359)
Change of assumptions	-	-	-
Net investment gain	-	(364,848)	364,848
Benefit payments	-	-	-
Administrative expense	-	(7,187)	7,187
Net change	<u>(74,720)</u>	<u>(372,035)</u>	<u>297,315</u>
Balance at December 30, 2022	<u>\$ 2,040,120</u>	<u>\$ 3,796,371</u>	<u>\$ (1,756,251)</u>
	<u>Total OPEB Liability (A)</u>	<u>Fiduciary Net Position (B)</u>	<u>Net OPEB Liability (Asset) (A)-(B)</u>
Balances at January 1, 2021	\$ 2,175,335	\$ 3,740,618	\$ (1,565,283)
Service cost	97,986	-	97,986
Interest cost	131,985	-	131,985
Differences between expected and actual experience	(289,078)	-	(289,078)
Change of assumptions	(1,388)	-	(1,388)
Net investment gain	-	437,851	(437,851)
Benefit payments	-	-	-
Administrative expense	-	(10,063)	10,063
Net change	<u>(60,495)</u>	<u>427,788</u>	<u>(488,283)</u>
Balance at December 31, 2021	<u>\$ 2,114,840</u>	<u>\$ 4,168,406</u>	<u>\$ (2,053,566)</u>

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount and Healthcare Cost Rates
– The following information presents the total OPEB liability calculated using the discount rate of 6.5%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Total OPEB Liability	\$ 2,208,173	\$ 2,040,120	\$ 1,890,068
Total OPEB Liability (1% increase in healthcare cost rate)	\$ 2,437,063	\$ 2,241,624	\$ 2,067,953
Total OPEB Liability (1% decrease in healthcare cost rate)	\$ 2,012,526	\$ 1,867,066	\$ 1,736,593

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended December 30, 2022 and December 31, 2021, the Plan recognized OPEB income of \$103,953 and \$227,036, respectively. Since certain expense items are amortized each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense, they are labeled deferred inflows. If they will increase OPEB expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are amortized over the average expected remaining service life of the active and inactive OPEB Plan members at the beginning of the measurement period. Differences between expected and actual investment earnings are amortized over five years. At December 30, 2022, the Plan reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (1,649,330)
Differences between expected and actual investment earnings	41,452	(3,041)
Changes of assumptions or other inputs	533,298	(172,506)
Total	<u>\$ 574,750</u>	<u>\$ (1,824,877)</u>

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as a reduction to OPEB expense as follows:

2023		\$	(174,620)
2024			(120,996)
2025			(134,429)
2026			(94,802)
2027			(221,410)
Thereafter			(503,870)
			\$ (1,250,127)

Investments

As of December 30, 2022, the Plan had investments in equity mutual funds totaling \$2,040,937, restricted cash of \$1,038, and the following fixed-income investments and maturities:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Mutual funds – bonds	\$ 1,754,396	\$ -	\$ 1,754,396	\$ -	\$ -

As of December 31, 2021, the Plan had investments in equity mutual funds totaling \$2,284,593, restricted cash of \$4,875, and the following fixed-income investments and maturities:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Mutual funds – bonds	\$ 1,878,938	\$ -	\$ 1,878,938	\$ -	\$ -

The carrying amount of the investments shown above equals fair market value.

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

Interest Rate Risk – The assets of the Plan are invested in a diversified manner to provide consistent returns while accepting a moderate level of risk. The primary objective of the account is to generate the actuarial return required to fund future retiree medical benefits. The target asset allocation is reviewed annually with the Organization’s Finance Committee and is currently: 34% in domestic stocks, 17% in international stocks, 3% in real estate, 27% in global debt securities and 19% in short-term debt securities.

Credit Risk – The Plan has investment policy statements that seek to minimize credit risk through diversification. The Plan had investments in mutual funds which only purchase fixed income securities rated BBB or better at December 30, 2022 and December 31, 2021. The average credit rating of its holdings is between A and AA.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan has no formal policy on custodial credit risk. At December 30, 2022, the Plan had uncollateralized cash and investments with Fidelity Investments of \$3,796,371 (\$4,168,406 at December 31, 2021).

Fair Value

The Plan maintains all investments at fair value. Investments are classified into a fair value measurement using the levels and inputs as described in Note 2.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investment Securities – The Plan places reliance on independent investment managers or designated agents to provide fair value information for the investments held. The following fair value measurement inputs were used for investments held by the Plan:

- Mutual funds – Fair values for debt and equity mutual funds were determined using quoted market prices and are classified as Level 1 within the fair value hierarchy.

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

The following fair value hierarchy table presents information about the Organization’s investments measured at fair value as of December 30, 2022:

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investment Securities:				
Equity mutual funds:				
Large and mid-cap	\$ 1,105,299	\$ 1,105,299	\$ -	\$ -
International	658,066	658,066	-	-
Real estate	112,249	112,249	-	-
Utilities	165,323	165,323	-	-
Bond mutual funds:				
Short-term	954,618	954,618	-	-
International	799,778	799,778	-	-
Total investments	<u>\$ 3,795,333</u>	<u>\$ 3,795,333</u>	<u>\$ -</u>	<u>\$ -</u>

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12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) – CONTINUED

The following fair value hierarchy table presents information about the Organization’s investments measured at fair value as of December 31, 2021:

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investment Securities:				
Equity mutual funds:				
Large and mid-cap	\$ 1,261,838	\$ 1,261,838	\$ -	\$ -
International	718,251	718,251	-	-
Real estate	136,024	136,024	-	-
Utilities	168,480	168,480	-	-
Bond mutual funds:				
Short-term	920,751	920,751	-	-
International	958,187	958,187	-	-
Total investments	<u>\$ 4,163,531</u>	<u>\$ 4,163,531</u>	<u>\$ -</u>	<u>\$ -</u>

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13. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended December 30, 2022, are as follows:

	Salaries, Wages, and Benefits	Supplies and Services	Depreciation	Total
Research	\$ 23,711,085	\$ 17,835,113	\$ 2,348,671	\$ 43,894,869
Institutional Support	2,964,637	3,443,484	115,205	6,523,326
Operation & Maintenance of Plant	2,037,375	2,902,975	1,364,955	6,305,305
Totals	<u>\$ 28,713,097</u>	<u>\$ 24,181,572</u>	<u>\$ 3,828,831</u>	<u>\$ 56,723,500</u>

Operating expenses by functional classification for the year ended December 31, 2021, are as follows:

	Salaries, Wages, and Benefits	Supplies and Services	Depreciation	Total
Research	\$ 34,895,991	\$ 23,160,005	\$ 3,499,108	\$ 61,555,104
Institutional Support	3,023,607	3,709,768	170,148	6,903,523
Operation & Maintenance of Plant	2,618,723	3,672,775	1,974,022	8,265,520
Totals	<u>\$ 40,538,321</u>	<u>\$ 30,542,548</u>	<u>\$ 5,643,278</u>	<u>\$ 76,724,147</u>

Amounts are allocated based on management's best estimate.

14. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution retirement plan available to all employees after they have attained certain age and service requirements. The provisions of the plan are established by and may be amended by the Organization. Employees may contribute a percentage of their pretax salary, not to exceed the maximum allowed under the Internal Revenue Code. Contributions by employees are matched in accordance with the plan agreements and totaled \$1,479,918 and \$2,261,783 for the years ended December 30, 2022 and December 31, 2021, respectively. Total employer contributions, including matching and discretionary contributions, for the years ended December 30, 2022 and December 31, 2021, amounted to \$1,397,406 and \$1,215,519, respectively, for this plan.

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15. RELATED PARTY TRANSACTIONS

As discussed in Note 1, the Organization is a component unit of the Board of Trustees of the University of Alabama operating for the benefit of the University of Alabama at Birmingham (UAB). Numerous business arrangements exist between the Organization and UAB, including renting space, providing contract or grant support, providing administrative support and conducting joint research projects. Contract revenue received from UAB totaled \$5,450,609 during 2022 and \$5,653,711 during 2021. Expenses paid to UAB totaled \$1,348,862 during 2022 and \$1,859,148 during 2021. Accounts receivable from UAB were \$449,624 at December 30, 2022, and \$419,556 at December 31, 2021. Accounts payable to UAB were \$120,771 at December 30, 2022, and \$84,484 at December 31, 2021.

16. COMMITMENTS AND CONTINGENCIES

At December 30, 2022, commitments for capital expenditures totaled approximately \$83.8 million.

The revenue related to contracts with the U.S. Government is subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures. The amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

17. LITIGATION

The Organization is subject to certain litigation and claims in the normal course of operations. It is the opinion of management that there are currently no outstanding claims for which the ultimate outcome will have a material adverse impact on the Organization's financial position.

18. DISPOSAL OF OPERATIONS

On March 8, 2022, the Organization sold the assets and liabilities comprising its Engineering division to Kratos Defense & Security Solutions. As a result of the sale, the Organization recognized a gain of \$50.1 million for its Engineering division as a special item. The Engineering division had revenues and expenses of \$17.0 million and \$16.0 million, respectively, through the date the transaction closed.

19. SUBSEQUENT EVENTS

On August 11, 2022, the Organization entered into an agreement with Jefferson County in which Jefferson County agreed to pay the Organization the maximum amount of \$7.5 million through 3 installments of \$2.5 million each. The initial payment was received on January 12, 2023. The funds are contingent on the Organization securing further funding from the State of Alabama and from the City of Birmingham. Jefferson County has specified the funds to be used towards the construction of the new facilities.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL OPEB LIABILITY									
Service cost	\$ 119,760	\$ 97,986	\$ 115,865	\$ 108,284	\$ 123,141	\$ 144,932	\$ 137,234	\$ 150,288	\$ 159,178
Interest	126,879	131,985	135,840	153,177	175,563	207,648	207,519	191,972	215,791
Differences between expected and actual experience	(321,359)	(289,078)	(463,443)	(351,911)	(757,837)	(180,239)	(151,861)	-	(200,674)
Change in assumptions	-	(1,388)	(2,600)	9,334	-	61,689	16,769	-	(495,234)
Benefit payments	-	-	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)	(73,259)	(66,702)
Net change in total OPEB liability	(74,720)	(60,495)	(241,023)	(360,572)	(496,757)	24,194	140,728	269,001	(387,641)
Total OPEB liability – beginning	2,114,840	2,175,335	2,416,358	2,776,930	3,273,687	3,249,493	3,108,765	2,839,764	3,227,405
Total OPEB liability – ending (A)	<u>\$2,040,120</u>	<u>\$2,114,840</u>	<u>\$2,175,335</u>	<u>\$2,416,358</u>	<u>\$2,776,930</u>	<u>\$3,273,687</u>	<u>\$3,249,493</u>	<u>\$3,108,765</u>	<u>\$2,839,764</u>
OPEB FIDUCIARY NET POSITION									
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net investment income	(364,848)	437,851	172,707	493,564	(186,063)	393,811	266,803	(70,464)	269,543
Benefit payments	-	-	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)	(73,259)	(66,702)
Administrative expense	(7,187)	(10,063)	(9,196)	(10,840)	(9,707)	(8,505)	(6,363)	(13,924)	(10,311)
Other – transfer	-	-	-	-	-	-	-	(1,876,015)	-
Net change in plan fiduciary net position	(372,035)	427,788	136,826	203,268	(233,394)	175,470	191,507	-2,033,662	192,530
Plan fiduciary net position – beginning	4,168,406	3,740,618	3,603,792	3,400,524	3,633,918	3,458,448	3,266,941	5,300,603	5,108,073
Plan fiduciary net position – ending (B)	<u>3,796,371</u>	<u>4,168,406</u>	<u>3,740,618</u>	<u>3,603,792</u>	<u>3,400,524</u>	<u>3,633,918</u>	<u>3,458,448</u>	<u>3,266,941</u>	<u>5,300,603</u>
NET OPEB LIABILITY (ASSET) (A) – (B)	<u>\$ (1,756,251)</u>	<u>\$ (2,053,566)</u>	<u>\$ (1,565,283)</u>	<u>\$ (1,187,434)</u>	<u>\$ (623,594)</u>	<u>\$ (360,231)</u>	<u>\$ (208,955)</u>	<u>\$ (158,176)</u>	<u>\$ (2,460,839.00)</u>
COVERED EMPLOYEE PAYROLL	\$ 29,108,726	\$ 26,700,334	\$ 29,759,949	\$ 28,369,118	\$ 34,617,175	\$ 35,634,834	\$ 32,995,019	\$ 32,880,000	\$ 32,600,000
NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL	-6.03%	-7.69%	-5.26%	-4.19%	-1.80%	-1.01%	-0.63%	-0.48%	-7.55%
NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	186.09%	197.10%	171.96%	149.14%	122.46%	111.00%	106.40%	105.09%	186.62%

See independent auditors' report.

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REQUIRED SUPPLEMENTARY INFORMATION –
NOTES TO THE SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET)**

The Schedule of Changes in Net OPEB Liability (Asset) is intended to show information for ten years. Additional years will be displayed as they become available. Information is not available for years prior to 2014. The reported Covered Employee Payroll during the measurement period is the total payroll paid to covered employees.

Actuarial assumptions – The total OPEB liability in the January 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal Method
Actuarial Value of Assets	Fair value of cash and investments
Amortization Method	Level Dollar Method
Mortality	RPH-2006 Mortality Table, with separate rates for annuitant and non-annuitant, projected generationally using Scale MP-2021
Discount Rate/Investment Rate of Return	6.5% per annum
Salary Scale	4% per annum
Healthcare Costs Rates	For medical costs, initial rate of 8% graded by 0.5% per year to an ultimate rate of 5.50% (dental costs, rate of 4.0% per year)
Withdrawal	Rates at sample ages range from 20% at age 20 to 1% at age 60; no withdrawal assumed after attainment of eligibility for retirement
Retirement	10% at age 55; 5% at ages 56-61; 25% at age 62; 10% at ages 63-64 and 100% at age 65
Marital Status	80% of retirees assumed married at retirement
Age Difference of Spouses	Males are assumed to be three years older than females
Plan Participation	50% of future retirees are assumed to elect coverage; 60% of retirees electing coverage who have spouses are assumed to elect spousal coverage
Per Capita Claims Cost	Developed based on active rates demographically adjusted to an age 65 cost. Pre-Medicare medical, \$14,760, Dental, \$710
Aging	2.5% per year until age 65
Annual Per Capita Retiree Contributions	Medical: single, \$4,320; retiree and spouse, \$8,640 Dental: single, \$207; retiree and spouse \$415

See independent auditors' report.

SINGLE AUDIT REPORT

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 30, 2022**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Research and Development Cluster:				
<u>Department of Commerce</u>				
Direct				
ECONOMIC DEVELOPMENT ADMINISTRATION	11.	ED17HDQ0200016	\$ 4,083	\$ -
Total Department of Commerce			4,083	-
<u>Department of Defense</u>				
Direct				
Department of Defense	12.	N00178-18-C-4004	2,736,400	-
Department of Defense	12.	FA8650-19-C-5210	370,918	-
Department of Defense	12.	FA8650-21-C-2407	101,422	-
Department of Defense	12.	SPRMM1-22-P-HA18	7,158	-
Department of Defense	12.	W81XWH2210529	26,076	-
Pass-Through				
GE AVIATION	12.	HQ0276-15-C-0005	59,213	-
MR&D	12.	D17PC00147	19,410	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	12.	W911-QY-15-C00134	(1)	-
RAYTHEON COMPANY	12.	9009000019000	579,886	-
MR&D	12.	HQ0147-19-C-7119	2,353	-
LOCKHEED MARTIN CORPORATION	12.	FA8219-20-C-0001	280,696	-
LOCKHEED MARTIN CORPORATION	12.	FA8681-18-C-0021	99,446	-
JOHN HOPKINS APPLIED PHYSICS LAB	12.	N00024-13-D-6400	57,522	-
IERUS TECHNOLOGIES	12.	W31P4Q-19-C-0012	138,566	-
HILL TECHNICAL SOLUTIONS	12.	AMTC-19-02-002	533,975	-
A.W. CAIN & CO.	12.	FA864920P0984	32,095	-
QUADRUS ADVANCED MANUF	12.	HQ086020C7128	65,352	-
INTEGRATION INNOVATION	12.	W50RAJ209C012	41,254	-
AEROJET ROCKETDYNE	12.	FA8219-20-C-0006	330,788	-
LOCKHEED MARTIN CORPORATION	12.	CLASSIFIED-224525	3,316	-
NORTHROP GRUMMAN CORPORAT	12.	FA8219-17-C-0002	10,501	-
LOCKHEED MARTIN CORPORATION	12.	18-D-0255	289,379	-
HRL LABORATORIES	12.	HQ0860-20-C-6550	14,887	-
JOHN HOPKINS APPLIED PHYSICS LAB	12.	HQ0147-18-D-0004	205,600	-
LOCKHEED MARTIN CORPORATION	12.	FA8681-18-C-0021	20,108	-
RAYTHEON COMPANY	12.	6710160901	148,247	-
LOCKHEED MARTIN CORPORATION	12.	HYIWT2018000002	16,878	-

See notes to schedule of expenditures of federal awards.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 30, 2022**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Identifying Number	Federal Expenditures	Passed Through to Subrecipients
RAYTHEON COMPANY	12.	UNDISCLOSED-B8077-PR	10,359	-
NORTHROP GRUMMAN CORPORAT	12.	N00030-19-C-0025	20,311	-
MIT LINCOLN LABORATORY	12.	FA8702-15-D-0001	878,178	-
BATTELLE MEMORIAL INSTITUTE	12.	FA86502D5703	27,392	-
LOCKHEED MARTIN CORPORATION	12.	FA8219-20-C-0001	438	-
DYNETICS, INC.	12.	47QFLA19A0009	96,016	-
LOCKHEED MARTIN CORPORATION	12.	W50RAJ-20-9-C012	269,389	-
ULTRAMET	12.	FA8650-17-C-5276	95,172	-
PLUS DESIGNS	12.	HQ0860-22-C-7518	29,726	-
AEROJET ROCKETDYNE	12.	W31P4Q-19-C-0011	137,719	-
HILL TECHNICAL SOLUTIONS	12.	AMTC-20-01-107	1,157	-
CCAT CARBON	12.	FA8650-18-C-5717	12,810	-
HONEYWELL	12.	693KA9-21-T-00004	31,500	-
RAYTHEON COMPANY	12.	N00014-17-C-2032	875	-
IERUS TECHNOLOGIES	12.	W9113M-22-C-0077	4,969	-
IERUS TECHNOLOGIES	12.	W9113M-22-C-0077	3,519	-
RAYTHEON COMPANY	12.	UNDISCLOSED-B8077-PR	269,327	-
NORTHROP GRUMMAN CORPORAT	12.	N00030-19-C-0025	20,696	-
NORTHROP GRUMMAN CORPORAT	12.	FA8219-20-C-0006	13,143	-
PRATT & WHITNEY	12.	FA8650-21-2-5244	433	-
DYNETICS, INC.	12.	BPA 47QFLA21 F0209	63,868	-
LOCKHEED MARTIN CORPORATION	12.	UNDISCLOSED-200129011	55	-
HONEYWELL	12.	693KA9-21-T-00004	48,935	-
CCAT CARBON	12.	FA8650-18-C-5717	14,110	-
Total Department of Defense			8,241,542	-
<u>National Aeronautics and Space Administration</u>				
Direct				
National Aeronautics and Space Administration	43.	80MSFC20D0003	764,681	-
National Aeronautics and Space Administration	43.	80NSSC21P2035	27,953	-
National Aeronautics and Space Administration	43.	SCEX22021D	12,454	-
Pass-Through				
SIERRA NEVADA CORPORATION	43.	NNJ16GX07B	63,717	-
AMA, INC.	43.	80LARC17C0003	57,937	-
INTUITIVE MACHINES, LLC	43.	80MS-FC20-C-0018	9,452	-
YULISTA TACTICAL SERVICES	43.	80JSC018D0002	323,096	-
EXOTHERMICS	43.	NNJ16GX07B	6,128	-
Total National Aeronautics and Space Administration			1,265,418	-

See notes to schedule of expenditures of federal awards.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 30, 2022**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<u>Department of Energy</u>				
Direct				
Department of Energy	81.	DE-AR0001157	400,597	\$ -
Department of Energy	81.	DE-FE0031713	420	-
Department of Energy	81.	DE-FE0031811	31,932	-
Pass-Through				
SOUTHERN COMPANY SERVICE, INC	81.	DE-NT000749	410,127	-
Total Department of Energy			843,076	-
<u>Department of Health and Human Services</u>				
Direct				
National Institutes of Health	93.	HHSN273201300010C	1,457,450	-
National Institutes of Health	93.	HHSN272201400010I	106,806	-
National Institutes of Health	93.	HHSN272201500017C	17,549	-
National Institutes of Health	93.	7R01NS101958-02	100,574	7,717
National Institutes of Health	93.	7R01MH110681-03	5,880	-
National Institutes of Health	93.	5R01AI132579-04	225,018	-
National Institutes of Health	93.	75N91019D00018	158	-
National Institutes of Health	93.	75N93019D00014	8,284	-
National Institutes of Health	93.	HHSN272201700029I	1,548,333	-
National Institutes of Health	93.	1R21AI146729-01A1	160,326	30,232
National Institutes of Health	93.	1R01DA047924-01A1	1,009,903	423,617
National Institutes of Health	93.	1F99AG068428-01	19,397	-
National Institutes of Health	93.	1R01NS124037-01	534,595	84,288
National Institutes of Health	93.	1R21NS124209-01	329,076	24,742
National Institutes of Health	93.	75N93021D00010	23,603	-
National Institutes of Health	93.	75N93021D00010	610	-
National Institutes of Health	93.	75N93019D00014	177,343	-
National Institutes of Health	93.	75N92021P00264	42,373	-
National Institutes of Health	93.	HHSN272201800006I	308,993	-
National Institutes of Health	93.	75N92B22P00016	8,625	-
National Institutes of Health	93.	HHSN272201800006I	122,427	-
National Institutes of Health	93.	75N92B22P00059	8,625	-
National Institutes of Health	93.	75N95C22P00098	7,500	-
National Institutes of Health	93.	75N92B22P00066	1,283	-

See notes to schedule of expenditures of federal awards.

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 30, 2022**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Pass-Through:				
BIOMEDICAL ADVANCED RESEARCH & DEVELOPMENT AUTHORITY	93.	HHSO100201700018I	\$ 98,498	\$ -
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1U54ES030246-01	754,142	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1R01NS108713-01	201,156	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1R21AR074569-01	4,723	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1U19AI142759-01	3,184,295	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1UL1TR003096-01	41,348	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	5R01NS082413-07	(1,713)	-
CASE WESTERN RESERVE UNIVERSITY	93.	5R01AI148469-02	167,953	-
SIGA TECHNOLOGIES, INC.	93.	P21.0351R1	119,338	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	1R01AG061785-01A1	59,797	-
UNIVERSITY OF ALABAMA AT BIRMINGHAM	93.	5R01NS105438-04	13,705	-
CENTER FOR DISEASE CONTROL	93.	75D30122P14061	22,165	-
UNIVERSITY OF TN HEALTH SCIENCE CENTER	93.	1R01CA266207-01A1	94,872	-
Total Department of Health & Human Services			10,985,010	570,596
Classified				
Classified	99.	19C2582	253,948	-
Total Classified			253,948	-
Grand Total			\$ 21,593,077	\$ 570,596

See notes to schedule of expenditures of federal awards.

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 30, 2022

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the Schedule) summarizes the expenditures of Southern Research Institute (the Organization) under direct contracts and subcontracts of the federal government for the year ended December 30, 2022. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, results of operations, changes in net position and cash flows of the Organization.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Organization, the agencies and departments of the federal government and all subawards to the Organization by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The information in the Schedule is presented in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Organization has obtained Federal Assistance Listing (FAL) numbers to ensure that all programs have been appropriately identified in the Schedule. FAL numbers for applicable programs have been appropriately listed by those programs. Certain contracts and grants are not assigned FAL numbers and, therefore, FAL numbers are not listed by these programs.

For purposes of the Schedule, expenditures for federal awards programs are recognized on the accrual basis of accounting.

2. INDIRECT COST RATE

The Organization did not elect to charge a de minimis rate of 10% for all federal awards.

INDEPENDENT AUDITORS' 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
Southern Research Institute

We have audited, in accordance with the 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 Southern Research Institute (the Organization), a component unit of the Board of Trustees of the University of Alabama, which comprise the statement of financial position as of and for the year ended December 30, 2022, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 4, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Research Institute's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Research Institute'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Research Institute'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 financial statements. 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Birmingham, Alabama

May 4, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Southern Research Institute

Opinion on Each Major Federal Program

We have audited Southern Research Institute's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southern Research Institute's major federal programs for the year ended December 30, 2022. Southern Research Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southern Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 30, 2022.

Basis for Opinion on Each 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*, 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 Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southern Research Institute and to meet our other 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 each major federal program. Our audit does not provide a legal determination of Southern Research Institute's compliance with the compliance requirements referred to above.

Responsibilities of Management 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 Southern Research Institute's federal programs.

Auditors' Responsibilities 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 Southern Research Institute'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 generally accepted auditing standards, *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 for 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 Southern Research Institute's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Southern Research Institute'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 Southern Research Institute'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 Southern Research Institute'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 a 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 Responsibilities 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, 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.

Warren Averett, LLC

Birmingham, Alabama
September 11, 2023

**SOUTHERN RESEARCH INSTITUTE
 (A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 30, 2022**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report the auditor issued on the financial statements: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No **X**

Significant deficiencies identified? Yes None reported

Noncompliance material to financial statements noted? Yes No **X**

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No **X**

Significant deficiencies identified? Yes None reported

Type of auditors’ report on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes No **X**

Identification of major programs:

Federal Assistance Listing Number(s)	Name of Federal Program or Cluster
Various	<i>Research and Development Cluster</i>

Various *Research and Development Cluster*

Dollar threshold used to determine Type A programs: \$750,000

Auditee qualified as low-risk auditee? Yes **X** No

**SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 30, 2022**

**SECTION II – FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

No matters are reported as financial statement findings or questioned costs related to the financial statements in accordance with *Government Auditing Standards* for the year ended December 30, 2022.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – STATUS OF PRIOR FINDINGS

There were no prior year findings or questioned costs.